

Mkhondo Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

General Information

Mayoral committee

Executive Mayor

Speaker

Chief Whip

Member of Mayoral Committee - Finance and Technical

Member of Mayoral Committee- Community Services

Member of Mayoral Committee- Planning, Corporate and Development

Councillors

Cllr. V.M. Motha

Cllr. T.G. Nkosi

Cllr. M. Yende

Cllr. Z.J. Mnisi

Cllr. D. Twala

Cllr. T.E. Khumalo

Cllr. C.B. Mkwanzani

Cllr. D.M. Twala

Cllr. B.J. Vilakazi

Cllr. B.M. Khumalo

Cllr. S.S. Mathebuka

Cllr. T.P. Hlatshwayo

Cllr. K. D. Masondo

Cllr. R.P. Hlwatshayo

Cllr. T.S. Nkosi

Cllr. D.M. Ntshakala

Cllr. J.P. Makhathini

Cllr. T.S. Mafuyeka

Cllr. M.Z. Ngwenya

Cllr. T.W. Manana

Cllr. M.D. Nthuli

Cllr. B.C. Mkwanzani

Cllr. T.B. Nkosi

Cllr. F.C. Mthetwa

Cllr. S.M. N. Bophele

Cllr. T.S.M. Zulu

Cllr. S.Z. Yende

Cllr. D.L. Ngobeza

Cllr. B.I. Nkosi

Cllr. J.S. Brussow

Cllr. S.J. Methula

Cllr. S.C. Mahlobo

Cllr. R.J.A. Wilson

Cllr. P.E. Thabede

Cllr. N.N. Zulu

Cllr. S.A. Mwelase

Cllr. T.P. Mncube

Cllr. B.J. Mchunu

Audited
By

2018 -11- 30

Auditor General South Africa
Mpumalanga Business Unit

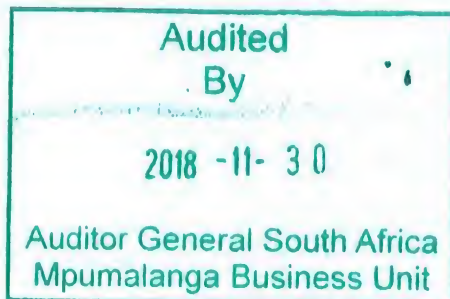
Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

General Information

Accounting Officer	Mr. M. Kunene
Chief Finance Officer (CFO)	Mr. B. Maseko
Registered office	Cnr Market & De Wet street Piet Retief 2380
Business address	Cnr Market & De Wet street Piet Retief 2380
Postal address	P.O. Box 23 Piet Retief 2380
Bankers	First National Bank A division of First Rand Limited



Mkhondo Local Municipality

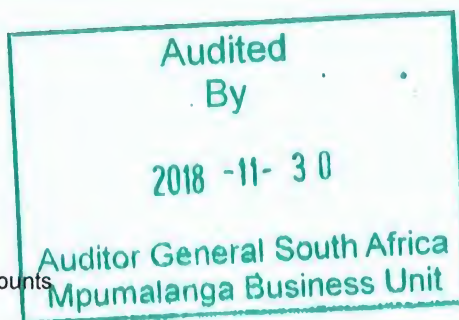
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Annual Financial Statements for the year ended 30 June 2018

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The reports and statements set out below comprise the annual financial statements presented to the :

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 104, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Mr. M. Kunene
Municipal Manager

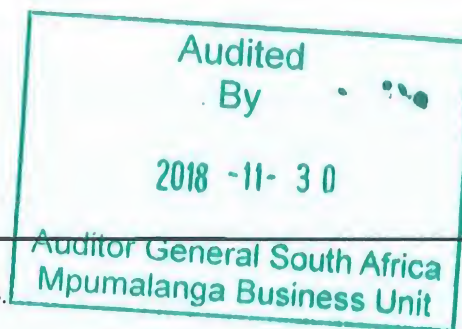


Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report



The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 152,836,366 (2017: deficit R 140,724,287).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer has no interests in the contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr. M. Kunene

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

Audit committee

The Audit Committee members for the period under review are as follows:

Position	Name	Date of Appointment
Chairperson	Mr. Wiseman Khumalo	Resigned May 2018
Members:	Ms Celumusa Nyembe	1 May 2014
	Advocate Johannes C Weapond	1 December 2017
	Mr Lucky Mahalaba	1 December 2017

In terms of Section 166 of the Municipal Finance Management Act, (Act 56 of 2003), the municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not directors of the municipal entity onto the audit committee.

Internal audit

The municipality has a functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality mainly banks with First National Bank Limited a division of First Rand limited.

9. Auditors

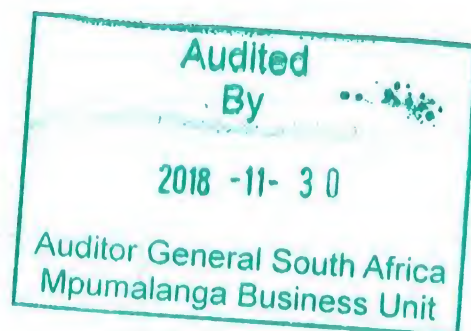
Auditor General South Africa will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commencement.

Mkhondo Local Municipality did not enter into any Public Private Partnership in the first half of 2017/18 financial year, nor does it have any existing PPP's.



Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	13,178,777	7,585,606
Other financial assets	4	39,823	37,510
Receivables from exchange transactions	5	3,064,028	3,779,019
Receivables from non-exchange transactions	6	2,045,006	1,540,006
Consumer debtors	7	41,692,978	37,276,662
Cash and cash equivalents	8	3,443,923	1,499,578
		63,464,535	51,718,381
Non-Current Assets			
Biological assets that form part of an agricultural activity	9	30,052,809	59,684,288
Investment property	10	76,575,000	76,575,000
Property, plant and equipment	11	1,547,016,943	1,601,489,441
Intangible assets	12	118,571	246,227
Other financial assets	4	425,502	344,957
		1,654,188,825	1,738,339,913
Total Assets		1,717,653,360	1,790,058,294
Liabilities			
Current Liabilities			
Other financial liabilities	13	10,000,000	7,296,892
Operating lease liability	14	5,275	5,275
Payables from exchange transactions	15	264,956,089	201,987,772
VAT payable	16	16,525,137	6,376,670
Consumer deposits	17	3,551,068	3,510,222
Employee benefit obligation	18	1,619,055	1,485,909
Unspent conditional grants and receipts	19	552,492	4,126,488
		297,209,116	224,789,228
Non-Current Liabilities			
Employee benefit obligation	18	21,298,625	19,512,984
Provisions	20	21,821,072	15,595,181
		43,119,697	35,108,165
Total Liabilities		340,328,813	259,897,393
Net Assets		1,377,324,547	1,530,160,901
Accumulated surplus		1,377,324,539	1,530,160,904

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Mpumalanga Business Unit

* See Note 52 & 51

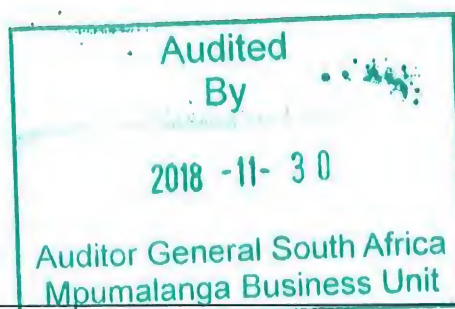
Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	148,060,908	163,927,311
Agency services		-	12,155,307
Licences and permits		101,547	115,639
Rental income		1,142,495	751,153
Other income	24	28,387,838	24,664,149
Interest received	25	21,186,310	16,599,564
Gain on disposal of assets and liabilities		1,686,386	2,304,205
Fair value adjustments		-	31,533,783
Inventory Gains		57,821	-
Total revenue from exchange transactions		200,623,305	252,051,111
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	39,806,661	40,351,300
Transfer revenue			
Government grants & subsidies	28	329,103,627	250,086,957
Public contributions and donations	29	29,141,392	-
Fines, Penalties and Forfeits		2,428,175	3,017,209
Total revenue from non-exchange transactions		400,479,855	293,455,466
Total revenue	21	601,103,160	545,506,577
Expenditure			
Employee related costs	30	(162,047,885)	(148,774,440)
Remuneration of councillors	31	(13,952,594)	(12,038,936)
Depreciation and amortisation	32	(202,623,910)	(202,025,795)
Finance costs	33	(14,656,478)	(9,476,140)
Lease rentals on operating lease		(4,708,585)	(5,661,749)
Debt Impairment	34	(65,277,633)	(62,362,631)
Bulk purchases	35	(122,428,708)	(115,583,252)
Contracted services	36	(46,559,488)	(37,340,336)
Transfers and Subsidies	27	(5,473,471)	(6,675,704)
Fair value adjustments	38	(29,631,479)	-
Inventories losses/write-downs		-	(1,120,243)
General Expenses	37	(86,579,295)	(85,171,638)
Total expenditure		(753,939,526)	(686,230,864)
(Deficit)/surplus for the year		(152,836,366)	(140,724,287)



* See Note 52 & 51

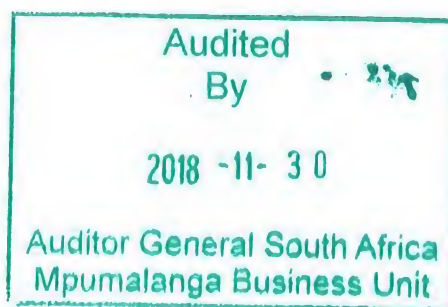
Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,303,533,735	1,303,533,735
Adjustments		
Prior year adjustments	367,351,456	367,351,456
Balance at 01 July 2016 as restated*	1,670,885,191	1,670,885,191
Changes in net assets		
Deficit for the year	(140,724,287)	(140,724,287)
Total changes	(140,724,287)	(140,724,287)
Opening balance as previously reported	1,249,741,776	1,249,741,776
Adjustments		
Prior year adjustments	280,419,129	280,419,129
Restated* Balance at 01 July 2017 as restated*	1,530,160,905	1,530,160,905
Changes in net assets		
Surplus for the year	(152,836,366)	(152,836,366)
Total changes	(152,836,366)	(152,836,366)
Balance at 30 June 2018	1,377,324,539	1,377,324,539



* See Note 52 & 51

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Property Taxation		25,733,411	40,351,304
Sale of goods and services		144,753,805	168,391,615
Grants		325,529,631	253,694,890
Interest income		1,142,759	442,467
		497,159,606	462,880,276
Payments			
Employee costs		(172,023,695)	(159,862,871)
Suppliers		(190,915,289)	(225,934,021)
Finance costs		(14,656,478)	(9,476,140)
		(377,595,462)	(395,273,032)
Net cash flows from operating activities	41	119,564,144	67,607,244
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(122,109,846)	(80,748,785)
Proceeds from sale of property, plant and equipment	11	1,933,584	4,664,240
Purchase of other intangible assets	12	(63,800)	(169,871)
Purchase of financial assets		(82,858)	(214,860)
Net cash flows from investing activities		(120,322,920)	(76,469,276)
Cash flows from financing activities			
Proceeds from other financial liabilities		10,000,000	6,553,768
Repayment of other financial liabilities		(7,296,892)	(218,170)
Net cash flows from financing activities		2,703,108	6,335,598
Net increase/(decrease) in cash and cash equivalents		1,944,332	(2,526,434)
Cash and cash equivalents at the beginning of the year		1,499,578	4,026,015
Cash and cash equivalents at the end of the year	8	3,443,910	1,499,581



* See Note 52 & 51

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	149,662,723	5,849,147	155,511,870	148,060,908	(7,450,962)	Ref 1
Licences and permits	52,330	-	52,330	101,547	49,217	Ref 2
Rental income	3,839,691	(2,373,227)	1,466,464	1,142,495	(323,969)	Ref 3
Other income - (rollup)	28,697,166	(829,646)	27,867,520	28,387,838	520,318	Ref 4
Interest received - investment	11,330,000	6,649,584	17,979,584	21,186,310	3,206,726	Ref 5
Total revenue from exchange transactions	193,581,910	9,295,858	202,877,768	198,879,098	(3,998,670)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	41,451,955	2,133,784	43,585,739	39,806,661	(3,779,078)	Ref 6
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Transfer revenue

Government grants & subsidies	319,161,000	349,996	319,510,996	329,103,627	9,592,631	Ref 7
Public contributions and donations	2,500,000	10,100,462	12,600,462	29,141,392	16,540,930	Ref 8
Fines, Penalties and Forfeits	408,491	1,195,745	1,604,236	2,428,175	823,939	Ref 9
Transfers and Subsidies- Capital (In-kind-all)	44,769,000	(2,675,000)	42,094,000	-	(42,094,000)	Ref 10

Total revenue from non-exchange transactions	408,290,446	11,104,987	419,395,433	400,479,855	(18,915,578)	
Total revenue	601,872,356	20,400,845	622,273,201	599,358,953	(22,914,248)	

Expenditure

Personnel	(155,527,852)	(899,930)	(156,427,782)	(162,047,885)	(5,620,103)	Ref 11
Remuneration of councillors	(13,744,516)	(1,160,020)	(14,904,536)	(13,952,594)	951,942	Ref 12
Depreciation and amortisation	(78,651,486)	6,951,486	(71,700,000)	(202,623,910)	(130,923,910)	Ref 13
Finance costs	(100,000)	-	(100,000)	(14,656,478)	(14,556,478)	Ref 14
Lease rentals on operating lease	-	-	-	(4,708,585)	(4,708,585)	Ref 15
Debt Impairment	(48,131,674)	(5,568,326)	(53,700,000)	(65,277,633)	(11,577,633)	Ref 16
Repairs and maintenance	(22,004,016)	3,396,926	(18,607,090)	(28,023,589)	(9,416,499)	Ref 17
Bulk purchases	(113,606,154)	-	(113,606,154)	(122,428,708)	(8,822,554)	Ref 18
Contracted Services	(37,907,835)	(928,000)	(38,835,835)	(46,559,488)	(7,723,653)	Ref 19
Transfers and Subsidies	(17,876,599)	6,999,992	(10,876,607)	(5,473,471)	5,403,136	Ref 20
General Expenses	(63,289,410)	1,689,555	(61,599,855)	(58,555,706)	3,044,149	Ref 21

Total expenditure	(550,839,542)	10,481,683	(540,357,859)	(724,308,047)	(183,950,188)	
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Operating deficit	51,032,814	30,882,528	81,915,342	(124,949,094)	(206,864,436)	
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Gain on disposal of assets and liabilities	-	-	-	1,686,386	1,686,386	Reff 22
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Fair value adjustments	-	-	-	(29,631,479)	(29,631,479)	Ref 23
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Inventories losses/write-downs	-	-	-	57,821	57,821	Ref 24
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	-	-	-	(27,887,272)	(27,887,272)	
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Deficit before taxation	51,032,814	30,882,528	81,915,342	(152,836,366)	(234,751,708)	
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Mkhondo Local Municipality

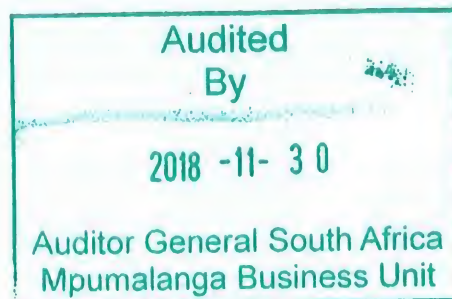
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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	51,032,814	30,882,528	81,915,342	(152,836,366)	(234,751,708)	



Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	9,350,630	-	9,350,630	13,178,777	3,828,147	Ref 25
Other financial assets	-	-	-	39,823	39,823	Ref 26
Receivables from exchange transactions	14,253,837	-	14,253,837	3,064,028	(11,189,809)	Ref 27
Receivables from non-exchange transactions	-	-	-	2,045,006	2,045,006	Ref 28
Consumer debtors	115,998,480	25,005,459	141,003,939	41,692,978	(99,310,961)	Ref 29
Cash and cash equivalents	8,399	137,258	145,657	3,443,923	3,298,266	Ref 30
	139,611,346	25,142,717	164,754,063	63,464,535	(101,289,528)	

Non-Current Assets

Biological assets that form part of an agricultural activity	72,264,809	(13,391,797)	58,873,012	30,052,809	(28,820,203)	Ref 31
Investment property	17,527,900	(654,800)	16,873,100	76,575,000	59,701,900	Ref 32
Property, plant and equipment	1,492,882,983	(45,777,508)	1,447,105,475	1,547,016,943	99,911,468	Ref 33
Intangible assets	158,887	87,340	246,227	118,571	(127,656)	Ref 34
Other financial assets	157,503	224,964	382,467	425,502	43,035	Ref 35
	1,582,992,082	(59,511,801)	1,523,480,281	1,654,188,825	130,708,544	

Total Assets **1,722,603,428** **(34,369,084)** **1,688,234,344** **1,717,653,360** **29,419,016**

Liabilities

Current Liabilities

Other financial liabilities	400,000	(300,000)	100,000	10,000,000	9,900,000	Ref 36
Operating lease liability	-	-	-	5,275	5,275	Ref 37
Payables from exchange transactions	97,639,624	15,912,724	113,552,348	264,956,089	151,403,741	Ref 38
VAT payable	-	-	-	16,525,137	16,525,137	Ref 39
Consumer deposits	4,131,433	(621,211)	3,510,222	3,551,068	40,846	Ref 40
Employee benefit obligation	1,966,047	(480,138)	1,485,909	1,619,055	133,146	Ref 41
Unspent conditional grants and receipts	-	-	-	552,492	552,492	Ref 42
	104,137,104	14,511,375	118,648,479	297,209,116	178,560,637	

Non-Current Liabilities

Employee benefit obligation	39,288,418	(4,180,253)	35,108,165	21,298,625	(13,809,540)	Ref 43
Provisions	-	-	-	21,821,072	21,821,072	Ref 44

39,288,418 **(4,180,253)** **35,108,165** **43,119,697** **8,011,532**

Total Liabilities **143,425,522** **10,331,122** **153,756,644** **340,328,813** **186,572,169**

Net Assets **1,579,177,906** **(44,700,206)** **1,534,477,700** **1,377,324,547** **(157,153,153)**

Audited
By

2018 -11- 30

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Auditor General South Africa
Mpumalanga Business Unit

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,579,177,906	(44,700,206)	1,534,477,700	1,377,324,547	(157,153,153)	



Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	31,088,990	1,600,000	32,688,990	25,733,411	(6,955,555)	Ref 45
Sale of goods and services	112,247,042	4,386,860	116,633,902	144,753,805	28,119,903	Ref 46
Grants	319,161,000	350,000	319,511,000	325,529,631	6,018,631	Ref 47
Interest income	530,000	1,129,126	1,659,126	1,142,759	(516,367)	Ref 48
Other receipts	32,793,431	(1,802,882)	30,990,549	-	(30,990,549)	Ref 49
	495,820,439	5,663,104	501,483,543	497,159,606	(4,323,937)	
Payments						
Employee costs	(169,272,368)	(2,059,950)	(171,332,318)	(172,023,695)	(691,377)	Ref 50
Suppliers	(224,030,632)	9,408,474	(214,622,158)	(190,915,290)	23,706,868	Ref 51
Finance costs	(100,000)	-	(100,000)	(14,656,478)	(14,556,478)	Ref 52
	(393,403,000)	7,348,524	(386,054,476)	(377,595,463)	8,459,013	
Net cash flows from operating activities	102,417,439	13,011,628	115,429,067	119,564,143	4,135,076	
Cash flows from investing activities						
Purchase of property, plant and equipment	(125,604,250)	(10,095,332)	(135,699,582)	(122,173,646)	13,525,936	Ref 53
Proceeds from sale of property, plant and equipment	44,769,000	(2,675,000)	42,094,000	1,933,584	(40,160,416)	Ref 54
Purchase of financial assets	-	-	-	(82,858)	(82,858)	Ref 55
Net cash flows from investing activities	(80,835,250)	(12,770,332)	(93,605,582)	(120,322,920)	(26,717,338)	
Cash flows from financing activities						
Repayment of other financial liabilities	(385,700)	(297,083)	(682,783)	(7,296,892)	(6,614,109)	Ref 56
Proceeds from other financial liabilities	-	-	-	10,000,000	10,000,000	Ref 57
Net cash flows from financing activities	(385,700)	(297,083)	(682,783)	2,703,108	(6,614,109)	
Net increase/(decrease) in cash and cash equivalents	21,196,489	(55,787)	21,140,702	1,944,331	(29,196,371)	
Cash and cash equivalents at the beginning of the year	1,689,000	193,045	1,882,045	1,499,578	(382,467)	Ref 58
Cash and cash equivalents at the end of the year	22,885,489	137,258	23,022,747	3,443,909	(29,578,838)	

Statement of Comparison of Budget and actual amounts variances explanations

Statement of Financial Performance

Ref 1 Service charges – Revenue is 5% below budget and the variance is deemed immaterial.

Ref 2 Licenses and permits – Variance is 94 above budget. The completion of the market stalls brought in more vendors under the control of the municipality.

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Audited
By

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Mpumalanga Business Unit

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Ref 3	Rental income – The income is 22% below budget, this is because of non-billing of customers renting Municipal properties.					
Ref 4	Other income – Other income is 2% over budget this is deemed immaterial. from timber than budget for.					
Ref 5	Interest received – This is 18% above budget, because of consumer debtors who are not paying their accounts on time.					
Ref 6	Property rates – The variance is 9% below budget and this is considered immaterial.					
Ref 7	Government Grants and Subsidies – The variance is 3% above budget and is considered immaterial.					
Ref 8	Public contributions and donations – The variance is 131% above budget. This represents projects completed by Gert Sibande District and handed over to the Municipality.					
Ref 9	Fines and Penalties – The variance is 51% above budget, this is attributed to more traffic fines issued.					
Ref 10	Transfers and subsidies – Capital (In-kind-all) – The variance is 100%. No income was received during the year.					
Ref 11	Employee Salaries – It is 4% above budget, variance is considered immaterial.					
Ref 12	Remuneration of Councillors – Is 6% below budget and is considered immaterial.					
Ref 13	Depreciation – The variance is 183% above budget because of the change in useful life of the assets.					
Ref 14	Finance Costs - The variance is 14556% above budget this is due interest costs to suppliers.					
Ref 15	Lease rentals – The variance is 100% this was not budgeted for.					
Ref 16	Debt impairment – The variance is 22% above budget this is due to non-performance of debtors.					
Ref 17	Repairs and maintenance – The variance is 51% above budget, this is because of ageing machinery and equipment.					
Ref 18	Bulk Purchases – The variance is 8% above budget and this is considered immaterial.					
Ref 19	Contracted Services – The variance is 20% above budget, this is due to expenditure not budget for.					
Ref 20	Transfers and subsidies – The variance is 50% below budget, this is due to less consumers registering for services than budgeted for.					
Ref 21	General expenses – The variance is 5% below budget and is considered immaterial.					
Ref 22	Gains on disposal of assets – The variance is 100%. Not budgeted for.					
Ref 23	Fair value adjustments - The variance is 100%. Not budgeted for.					
Ref 24	Inventories losses - The variance is 100%. Not budgeted for.					

Statement of Financial position

Current assets

- Ref 25 **Inventories** – The variance is 41% above budget and is because of land for RDP houses which was transferred to inventory.
- Ref 26 **Other financial assets** – The variance is 100%. Not budgeted for.
- Ref 27 **Receivables from exchange transactions** – The variance is 79% below budgeted, the line item was over budget for.
- Ref 28 **Receivables from non - exchange transactions** – The variance is 100% this was not budget for.
- Ref 29 **Consumer debtors** – The variance is 70% below budget, this is due to huge provisions for debtor's impairments.
- Ref 30 **Cash and equivalents** – The variance is 2264% above budget. The line item was under budgeted for.

Non-current assets

- Ref 31 **Biological assets** – The variance is 49% below budget this is because of harvesting which took place during the year.
- Ref 32 **Investment properties** – The variance is 354% above budget. This is because of the change in accounting policy from cost model to fair value model.
- Ref 33 **Property Plant and Equipment** – The variance is 7% above budget which is considered Immaterial.
- Ref 34 **Intangible assets** – The variance is 52% below budget. This is because of amortisations during the period under review.
- Ref 35 **Other financial assets** – The variance is 11% above budget. The growth is due to fair valuations in Old Mutual Investments.

Current Liabilities

- Ref 36 **Other financial liabilities** – The variance is 9900% above budget. This is because of the TWK loan which was taken in during the year and not budgeted for.

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

- Ref 37 **Operating Lease liability** – The variance is 100%. Not budgeted for.
 Ref 38 **Payables form exchange transactions** – The variance is 133% above budget, this is due to financial constraints.
 Ref 39 **VAT payables** – The variance is 100% and this was not budget for.
 Ref 40 **Consumer deposits** – The variance is 1% above budget and is considered immaterial.
 Ref 41 **Employee benefit obligation** – The variance is 9% below budget. The variance is considered immaterial.
 Ref 42 **Unspent conditional grants and receipts** - The variance is 100%. Not budgeted for.

Non-current liabilities

- Ref 43 **Employee benefit obligation** – The variance is 39% below budget. This is because of over budgeting on the line item.
 Ref 44 **Provisions** – The variance is 100% this was not budgeted for.

Cash Flow Statement

- Ref 45 **Taxation** – The variance is 21% below budget, non-performance of consumer debtors.
 Ref 46 **Sale of goods and services** – The variance is 24% above budget. Improvement of cash collections over budget.
 Ref 47 **Grants and subsidies** – The variance is 2% above budget and the variance is considered immaterial.
 Ref 48 **Interest income** – The variance is 31% below budget, this was because of reduction investments made during the year.
 Ref 49 **Other receipts** – The variance is 100%. The actuals are included under sale of goods and services.
 Ref 50 **Employee costs** – The variance is 0.4% and is considered immaterial.
 Ref 51 **Suppliers** – The variance is 11% below budget and is due to increase in payables at year end because of cash flow constraints.
 Ref 52 **Finance costs** – The variance is 14556% above budget. This is because of interest on suppliers which was under budgeted for.
 Ref 53 **Purchase of property plant and equipment** – The variance is 100% below budget. This is due to cash flow constraints.
 Ref 54 **Proceeds from property plant and equipment** – The variance is 95% below budget. This is because of over budgeting.
 Ref 55 **Purchase of financial assets** – The variance is 100%. This was not budgeted for.
 Ref 56 **Repayment of other financial liabilities** – The variance is 969%. This is because of under budgeting.
 Ref 57 **Proceeds from Other financial liabilities** – The variance is 100%. TWK loan was not budgeted for.
 Ref 58 **Cash and cash equivalents at the beginning of the year** - The variance is 20% below budget. This is because the budget was not adjusted during the adjustment budget period.

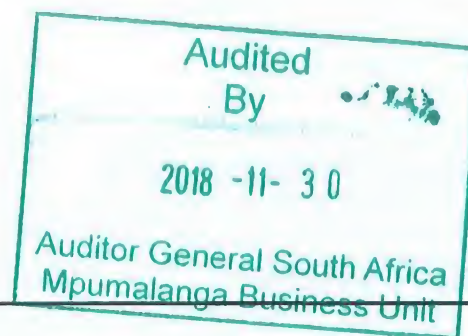


Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies



1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.



Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

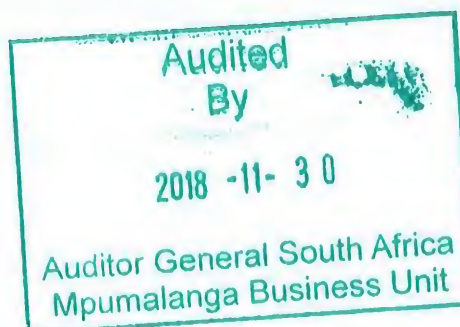
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

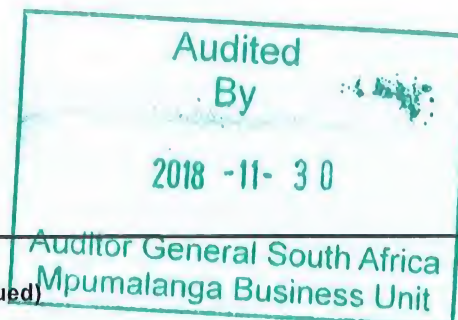


Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies



1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

Item	Useful life
Trees in a plantation forest	indefinite

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

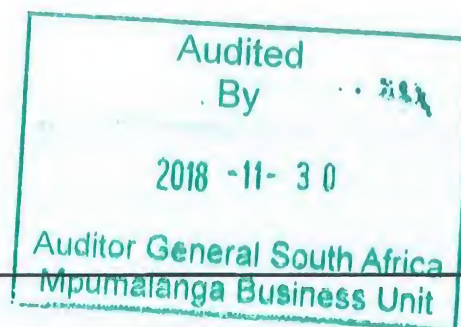
Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies



1.5 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.6 Property, plant and equipment

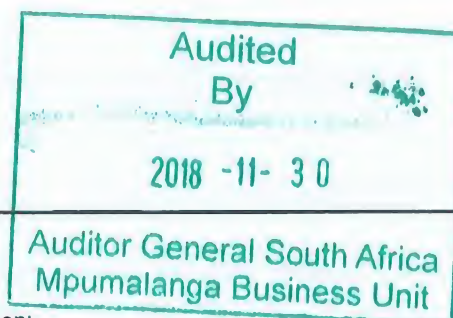
Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies



1.6 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Land and buildings - Community Facilities	Straight line	15-100 years
Land and buildings - Servitudes	Straight line	0
Land and Buildings - Fire/Ambulance stations	Straight line	5-100 years
Land and buildings - Municipal offices	Straight line	5-100 years
Land and buildings - Workshops/depots/yards	Straight line	5 -100 years
Land and buildings - Outdoor sport facilities	Straight line	15 -50 years
Land and buildings - Staff housing	Straight line	15 - 100 years
Water Supply network - Storm water network	Straight line	20-50 years
Water Supply network- Bulk mains	Straight line	40- 80 years
Water Supply network - Dams and Weirs	Straight line	15 - 50 years

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Accounting Policies

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Mpumalanga Business Unit

1.6 Property, plant and equipment (continued)

Water supply network - Distribution	Straight line	80 years
Water supply network - Distribution points	Straight line	15-20 years
Water Supply network - Pumpstations	Straight line	5-100 years
Water Supply network - Reservoirs and towers	Straight line	7-100 years
Water supply networks- Water Treatment works	Straight line	5-100 years
Electricity Networks- LV Network (<1000V)	Straight line	20 years
Electricity networks- MV Network (<=33 kv)	Straight line	45 years
Work in progress	Straight line	not depreciated
Road networks - Roads	Straight line	5 - 100 years
Road Networks - Roadside assets	Straight line	10-50 years
Sanitation Networks - Boreholes	Straight line	15-50 years
Sanitation networks - Outfall sewers	Straight line	80 years
Sanitation network - Reservoirs & towers	Straight line	15 - 50 years
Sanitation network - Reticulation	Straight line	80 years
Sanitation network - Sewer Pump stations	Straight line	10- 100 years
Sanitation network - Waste Water Treatment Works (WWTW)	Straight line	5 - 100 years
Road bridges	Straight line	50 years
Plant and machinery	Straight line	2-15 years
Furniture and fixtures	Straight line	2 - 10 years
Office equipment	Straight line	2-15 years
Transport assets	Straight line	3-15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Intangible assets

An asset is identifiable if it either:

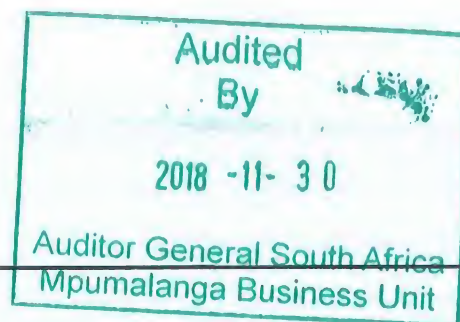
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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1.7 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

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1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

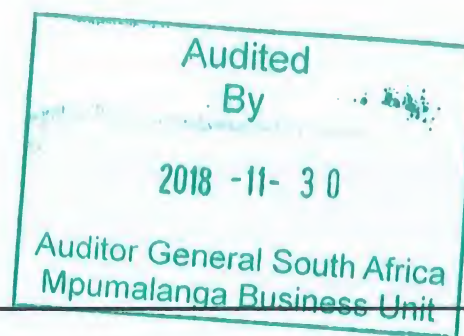
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

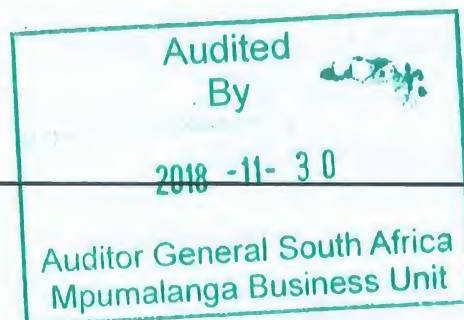
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other Financial assets	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Fixed deposit	Financial asset measured at fair value
Listed equity	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Financial Liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

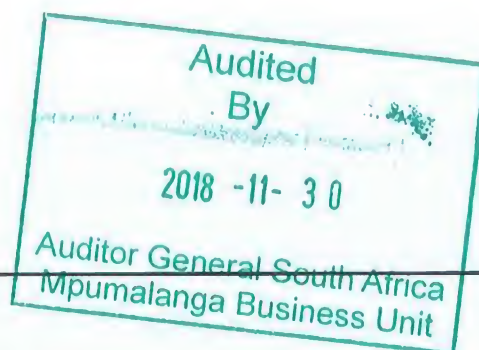
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

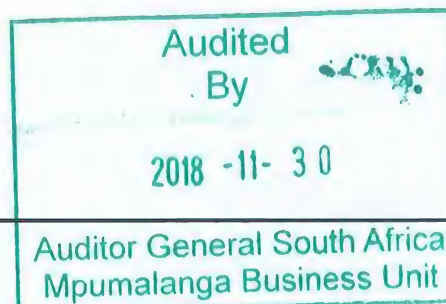
Financial assets measured at amortised cost:

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1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

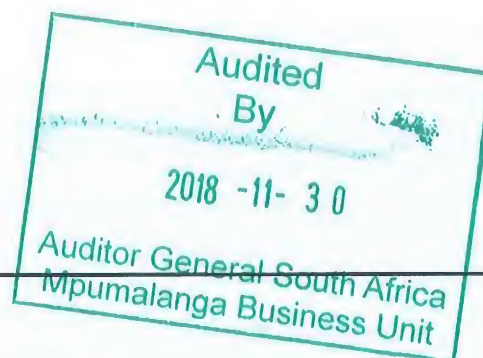
In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

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1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

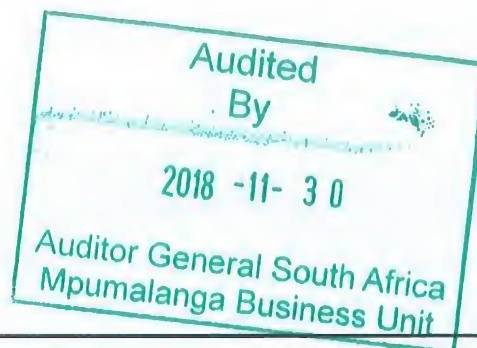
The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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1.11 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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1.11 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

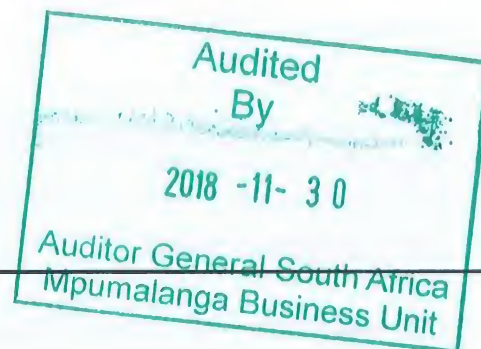
If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

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1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

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1.14 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

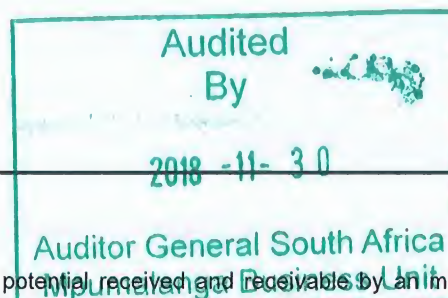


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1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

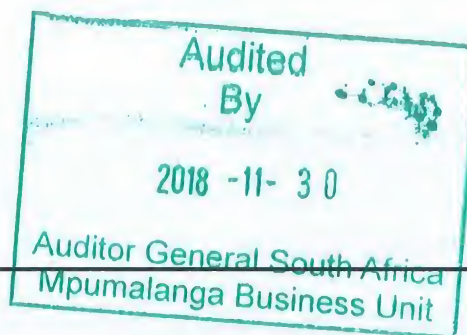
As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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1.15 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

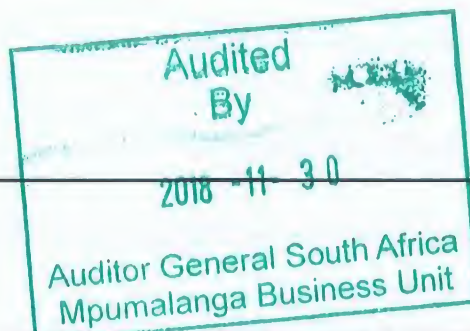
Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

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1.15 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.16 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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1.20 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

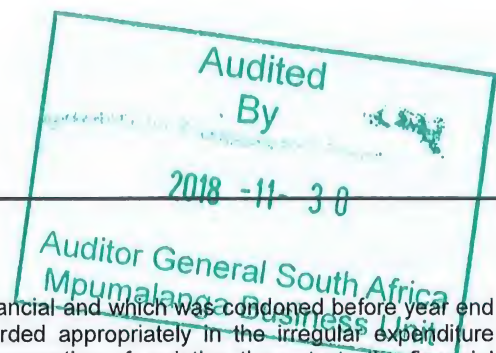
Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.



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1.21 Related parties (continued)

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.22 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

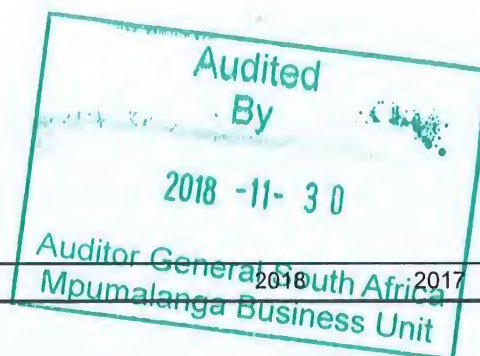
Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

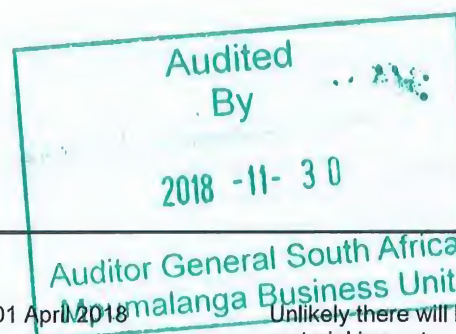
The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2019	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 107: Mergers	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018



Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Not expected to impact results but may result in additional disclosure
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

3. Inventories

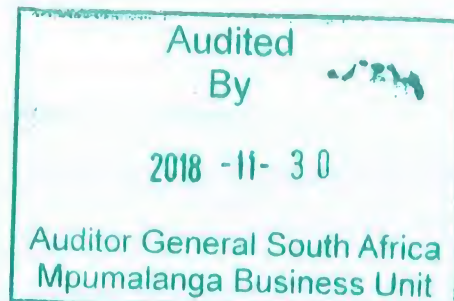
Consumable stores	9,777,429	7,228,342
Water	357,264	357,264
Land	3,044,084	-
	13,178,777	7,585,606
Carrying value of inventories carried at fair value less costs to sell	13,178,777	7,585,606

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

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4. Other financial assets

Designated at fair value

Listed Shares - Old Mutual: 13093141

425,502

344,957

This is an Old Mutual Wealth wrapped investment. The account was opened on 25 June 2002 with an initial investment amount of R3 539 868.

At amortised cost

ABSA 2056165426

31,472

29,644

This is a fixed term deposit with interest capitalised every three months. The account was opened on 9 March 2004.

ABSA 5008322939

8,351

7,866

This is a fixed term investment account with interest capitalised on a three month period. The account was opened on 24 September 1993.

39,823

37,510

Total other financial assets

465,325

382,467

Non-current assets

Designated at held for trading and available for sale

425,502

344,957

Current assets

At amortised cost

39,823

37,510

5. Receivables from exchange transactions

Deposits

93,298

93,298

Sundry Debtors

2,970,730

3,685,721

3,064,028

3,779,019

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)

Baa3

3,064,028

3,779,019

Fair value of trade and other receivables

Trade and other receivables

3,064,028

3,779,018

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 3,064,028 (2017: R 3,779,018) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due

3,064,028

3,779,018

6. Receivables from non-exchange transactions

Fines

2,045,006

1,540,006

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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6. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 12,302,420 (2017: R 11,298,834) were impaired and provided for.

The amount of the provision was R 1,003,586 as of 30 June 2018 (2017: R 2,084,743).

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(11,298,834)	(9,214,092)
Provision for impairment	(1,003,586)	(2,084,742)
	(12,302,420)	(11,298,834)



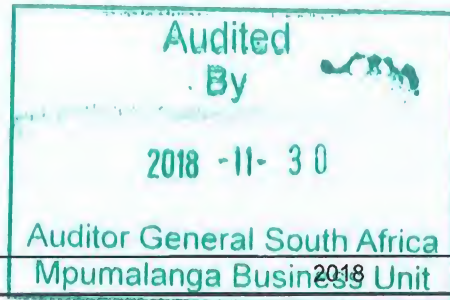
Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

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7. Consumer debtors

Gross balances

Rates	71,828,558	57,755,308
Electricity	85,956,478	61,906,109
Water	66,419,517	51,187,283
Sewerage	34,080,712	28,259,552
Refuse	55,604,577	45,836,877
Other	20,520,156	20,774,506
	334,409,998	265,719,635

Less: Allowance for impairment

Rates	(62,873,852)	(48,754,329)
Electricity	(75,240,477)	(47,856,130)
Water	(58,139,144)	(45,542,351)
Sewerage	(29,831,946)	(24,726,556)
Refuse	(48,672,478)	(42,374,438)
Other	(17,959,123)	(19,189,169)
	(292,717,020)	(228,442,973)

Net balance

Rates	8,954,706	9,000,979
Electricity	10,716,001	14,049,979
Water	8,280,373	5,644,932
Sewerage	4,248,766	3,532,996
Refuse	6,932,099	3,462,439
Other	2,561,033	1,585,337
	41,692,978	37,276,662

Included in above is receivables from exchange transactions

Electricity	16,737,036	14,049,979
Water	7,719,375	5,644,932
Sewerage	3,078,388	3,532,996
Refuse	5,822,896	3,462,440
Other	1,483,123	1,585,337
	34,840,818	28,275,684

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	9,456,829	9,000,979
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Net balance	44,297,647	37,276,663
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Rates

Current (0 -30 days)	445,559	1,962,026
31 - 60 days	322,230	924,529
61 - 90 days	285,652	621,236
91 - 120 days	7,901,265	5,493,188
	8,954,706	9,000,979

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By

2018 -11- 30

Auditor General South Africa
Mpumalanga Business Unit

Notes to the Annual Financial Statements

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2018
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7. Consumer debtors (continued)

Electricity

Current (0 -30 days)	830,515	5,380,516
31 - 60 days	618,104	1,497,258
61 - 90 days	445,113	802,594
91 - 120 days	8,822,269	6,369,611
	10,716,001	14,049,979

Water

Current (0 -30 days)	1,830,640	904,343
31 - 60 days	1,823,133	377,553
61 - 90 days	1,410,883	268,874
91 - 120 days	3,215,717	4,094,162
	8,280,373	5,644,932

Sewerage

Current (0 -30 days)	812,073	483,333
31 - 60 days	688,659	239,588
61 - 90 days	594,280	166,543
91 - 120 days	2,153,754	2,643,532
	4,248,766	3,532,996

Refuse

Current (0 -30 days)	1,005,414	266,673
31 - 60 days	918,363	171,177
61 - 90 days	877,645	138,820
91 - 120 days	4,130,677	2,885,769
	6,932,099	3,462,439

Other (specify)

Current (0 -30 days)	90,639	(575,621)
31 - 60 days	82,394	(3,689)
61 - 90 days	89,516	80,524
91 - 120 days	2,298,484	2,084,123
	2,561,033	1,585,337

Reconciliation of allowance for impairment

Balance at beginning of the year	(228,442,973)	(168,404,721)
Contributions to allowance	(64,274,047)	(60,038,252)
	(292,717,020)	(228,442,973)

Fair value of consumer debtors

Consumer debtors	41,692,978	37,276,663
------------------	------------	------------

Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 292,717,019 (2017: R 228,476,422) were impaired and provided for.

The amount of the provision was R 64,274,047 as of 30 June 2018 (2017: R 60,071,701).

The ageing of these loans is as follows:

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

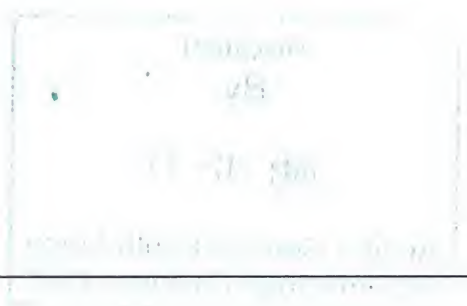
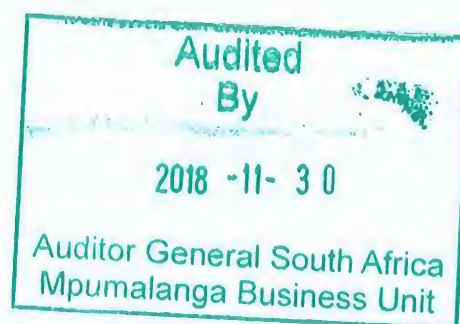
Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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7. Consumer debtors (continued)

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	41,692,979	37,276,663
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Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
8. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	6,342	8,541
Bank balances	385,217,305	240,852
Short-term deposits	342,244	1,250,185
Bank overdraft	(382,121,968)	-
	3,443,923	1,499,578
Current assets	385,565,891	1,499,578
Current liabilities	(382,121,968)	-
	3,443,923	1,499,578

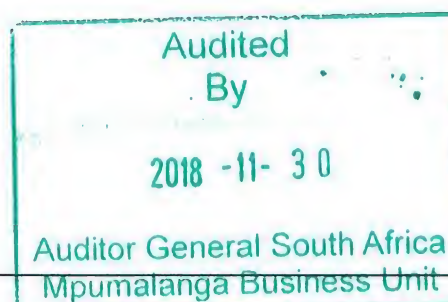
Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
Baa3	2,740,008	5,957,159

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank Cheque account - 620131263656	2,397,763	4,706,974	3,369,729	3,095,336	240,852	3,355,899
First National Bank Fixed Deposit account 62254274732	12,223	250,185	32,891	12,223	250,185	32,891
First National Bank call account 62016967351	26,048	1,000,000	428,685	26,048	1,000,000	428,685
FNB Call account EPWP 62706895911	72,387	-	-	72,387	-	-
FNB Call account WSIG 62706897214	47,553	-	-	47,553	-	-
FNB Call account FMG 62706892280	26,923	-	-	26,923	-	-
FNB Call account INEP 62706893890	10,116	-	-	10,116	-	-
FNB Call account EQS 62706889617	94,567	-	-	94,567	-	-
FNB Call account MIG 62706890911	52,428	-	-	52,428	-	-
Total	2,740,008	5,957,159	3,831,305	3,437,581	1,491,037	3,817,475



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9. Biological assets that form part of an agricultural activity

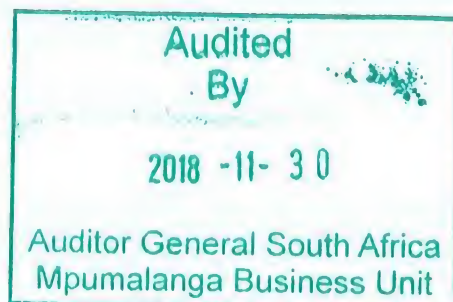
	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Trees in a plantation forest	30,052,809	-	30,052,809	59,684,288	-	59,684,288

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	59,684,288	(29,631,479)	30,052,809

Reconciliation of biological assets that form part of an agricultural activity - 2017

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	72,264,809	(12,580,521)	59,684,288



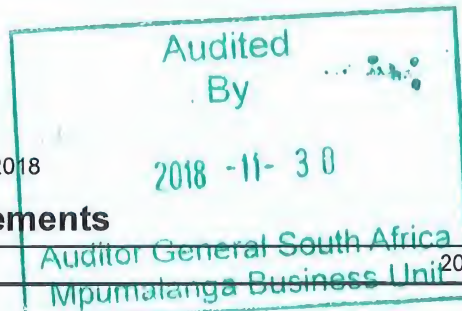
Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

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9. Biological assets that form part of an agricultural activity (continued)

Non - Financial information

Quantities of each biological asset

Trees in a plantation forest	30,052,809	59,684,288
------------------------------	------------	------------

Total population of plantation area:

- Wattle: 22% (582.1ha)

- Gum: 42% (1103.5ha)

- Pine: 36% (963.5ha)

Next fair valuation on the plantation will be due on 30 June 2019

Mature biological[Insert basis of making distinctions regarding consumables/bearer or mature/immature]

Mature biological assets

Trees in a plantation forest	30,052,809	59,684,288
------------------------------	------------	------------

Pledged and restriction

Carrying value of biological assets pledged as security:

Trees standing	19,160,654	-
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The Municipality secured a short term loan of R10,000,000 from TWK in June 2018.

The Loan is secured over certain compartments of standing trees from the Municipality Forests and Plantations.

Other information

Methods and assumptions used in determining fair value

Valuation of forested land requires knowledge of the location and current volume of timber resources. Forests are dynamic, biological systems, and estimates of growth for various management strategies were applied. *Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. A MAI (gum: 15 tons/ha/year, pine: 13 tons/ha/year, wattle: 10 tons/ha/year) was used in the evaluation.*

The standing timber value per hectare is determined by valuing the yield at rotation age and deducting from that the harvesting and delivery cost. The profitability of the crop is then determined by the Faust Mann Formula (Table 1-4) and incorporates all the costs. Timber prices used were provided by NCT, TWK, and Mondi. Harvesting and transport costs were supplied by local contractors in 2018. See appendix 2, 3 and 4 for details of standing timber value per specie.

The Municipality used an expert to calculate the fair value of biological assets as at 30 June 2018.

Financial Risk Strategy

The entity is exposed to financial risks arising from the changes in market prices of timber. The entity does not anticipate that timber prices will decline significantly in the foreseeable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.

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10. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	76,575,000	-	76,575,000	76,575,000	-	76,575,000

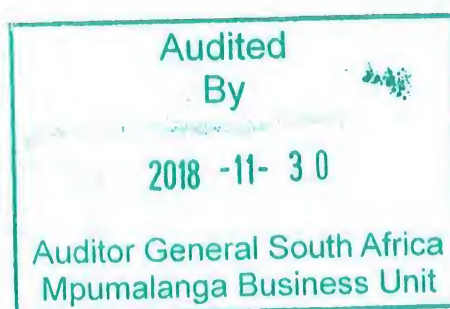
Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	76,575,000	76,575,000

Reconciliation of investment property - 2017

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	32,502,300	(31,500)	44,104,200	76,575,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



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11. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	27,923,597	-	27,923,597	31,214,879	-	31,214,879
Buildings	62,891,864	(40,608,828)	22,283,036	62,891,864	(30,794,213)	32,097,651
Infrastructure	2,715,379,888	(1,571,881,823)	1,143,498,065	2,683,775,879	(1,387,179,629)	1,296,596,250
Community	154,683,843	(85,745,110)	68,938,733	141,739,607	(81,431,863)	60,307,744
Other property, plant and equipment	52,177,775	(43,392,250)	8,785,525	51,911,882	(39,940,340)	11,971,542
Work in Progress - Roads network infrastructure	49,331,703	-	49,331,703	9,160,809	-	9,160,809
Work in Progress - Community Facilities	-	-	-	2,291,735	-	2,291,735
Work in Progress - Buildings	29,614,930	-	29,614,930	26,849,158	-	26,849,158
Work in Progress - Storm Water Infrastructure	9,896,908	-	9,896,908	8,408,811	-	8,408,811
Work in Progress - Waste Water Infrastructure Network	35,917,893	-	35,917,893	-	-	-
Work in Progress - Water Network Infrastructure	108,222,659	-	108,222,659	80,440,394	-	80,440,394
Work in Progress - Electrical Network Infrastructure	42,603,894	-	42,603,894	42,150,468	-	42,150,468
Total	3,288,644,954	(1,741,628,011)	1,547,016,943	3,140,835,486	(1,539,346,045)	1,601,489,441

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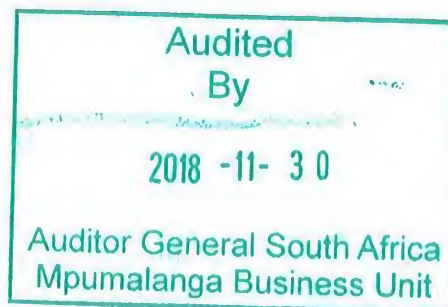
Notes to the Annual Financial Statements

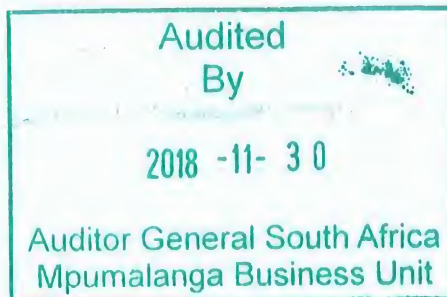
Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Other changes	Depreciation	Total
Land	31,214,879	-	(247,198)	(3,044,084)	-	-	27,923,597
Buildings	32,097,651	-	-	-	-	(9,814,615)	22,283,036
Infrastructure	1,296,596,250	-	-	2,462,617	29,141,392	(184,702,194)	1,143,498,065
Community	60,307,744	-	-	12,944,236	-	(4,313,247)	68,938,733
Other property, plant and equipment	11,971,542	416,381	-	-	-	(3,602,398)	8,785,525
Work in Progress- Roads Network Infrastructure	9,160,809	40,170,894	-	-	-	-	49,331,703
Work In Progress - Community Services	2,291,735	10,652,501	-	(12,944,236)	-	-	-
Work in Progress - Buildings	26,849,158	2,765,772	-	-	-	-	29,614,930
Work in Progress- Storm Water Infrastructure	8,408,811	1,488,097	-	-	-	-	9,896,908
Work in Progress- Waste Water Network	-	35,917,893	-	-	-	-	35,917,893
Work in Progress- Water Network	80,440,394	30,244,882	-	(2,462,617)	-	-	108,222,659
Work in Progress- Electrical Network Infrastructure	42,150,468	453,426	-	-	-	-	42,603,894
	1,601,489,441	122,109,846	(247,198)	(3,044,084)	29,141,392	(202,432,454)	1,547,016,943





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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	31,702,848	-	(487,969)	-	-	31,214,879
Buildings	41,912,266	-	-	-	(9,814,615)	32,097,651
Infrastructure	1,410,695,678	-	(908,290)	70,935,407	(184,126,545)	1,296,596,250
Community	62,468,347	-	-	1,867,612	(4,028,215)	60,307,744
Other property, plant and equipment	11,293,536	5,584,170	-	-	(4,906,164)	11,971,542
Work in Progress- Roads Network Infrastructure	6,779,213	2,381,596	-	-	-	9,160,809
Work In Progress - Community Services	-	4,159,347	-	(1,867,612)	-	2,291,735
Work in Progress - Buildings	16,181,782	10,667,376	-	-	-	26,849,158
Work in Progress- Storm Water Infrastructure	2,111,655	6,297,156	-	-	-	8,408,811
Work in Progress- Water Network	109,405,749	41,970,052	-	(70,935,407)	-	80,440,394
Work in Progress- Electrical Network Infrastructure	32,461,380	9,689,088	-	-	-	42,150,468
	1,725,012,454	80,748,785	(1,396,259)	-	(202,875,539)	1,601,489,441

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11. Property, plant and equipment (continued)

Pledged as security

There is no Property, Plant and Equipment which has been pledged as security.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	169,301,375	169,301,375
Additions/capital expenditure	121,693,462	121,693,462
Transferred to completed items	(15,406,853)	(15,406,853)
	275,587,984	275,587,984

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	238,706,327	238,706,327
Prior period adjustment	(71,766,548)	(71,766,548)
Additions/capital expenditure	75,164,616	75,164,616
Transfers to completed projects	(72,803,021)	(72,803,021)
	169,301,374	169,301,374

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Projects still in progress but significantly behind schedule.

Project Name	Amount	Reason
Construction of Driefontein to Iswepe and Haartebeesfontein Water Bulk Line	R92,095,887.04	There is delay in commissioning of the Pump station.
Construction of Main Access Road in Sandbank	R12,887,033.34	The initial contract was terminated due to contractual disputes. The Project is currently progressing well under a cession from the second contractor who was appointed.

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18. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

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18. Employee benefit obligations (continued)

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any offbalance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

Sensitivity Analysis

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Table 7.1 summarises the results of the sensitivity analysis.

Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service members	Continuation members	Total	change
Central assumptions		2.930	9.100	12.031	
Health care inflation	+1%	3.366	9.239	12.605	5%
Health care inflation	-1%	2.473	8.881	11.354	-6%
Discount rate	+1%	2.450	8.439	10.890	-9%
Discount rate	-1%	3.532	9.860	13.392	11%
Post-retirement mortality	-1 yr	3.029	9.422	12.450	3%
Average retirement age	-1 yr	3.221	9.100	12.321	2%
Continuation of membership at retirement	-10%	2.012	9.100	11.113	-8%

Note to Table 7.1: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 5% higher than that shown.

Table 7.2 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2018.

Table 7.2: Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2018

Assumption	Change	Current-Service costs	Interest Cost	Total	change
Central assumptions		104,500	1,030,000	1,134,500	
Health care inflation	+1%	119,400	1,078,800	1,198,200	6%

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18. Employee benefit obligations (continued)

Health care inflation	-1%	88,400	971,500	1,059,900	-7%
Discount rate	+1%	87,000	1,025,300	1,112,300	-2%
Discount rate	-1%	126,700	1,030,800	1,157,500	2%
Post-retirement mortality	-1 yr	108,100	1,067,000	1,175,100	4%
Average retirement age	-1 yr	114,800	1,054,700	1,169,500	3%
Continuation of membership at retirement	-10%	71,600	949,800	1,021,400	-10%

These figures were derived at the last valuation and were presented in that report.

Table 7.3 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2019.

Table 7.3: Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2019.

Assumption	Change	Current-Service costs	Interest Cost	Total	change
Central assumptions		107,200	1,069,300	1,176,500	
Health care inflation	+1%	123,100	1,122,000	1,245,100	6%
Health care inflation	-1%	90,400	1,007,100	1,097,500	-7%
Discount rate	+1%	90,300	1,068,700	1,159,000	-1%
Discount rate	-1%	128,200	1,065,100	1,193,300	1%
Post-retirement mortality	-1 yr	110,800	1,107,900	1,218,700	4%
Average retirement age	-1 yr	117,900	1,096,000	1,213,900	3%
Continuation of membership at retirement	-10%	73,700	984,600	1,058,300	-10%

Long service awards

Scope of Valuation

The effective date of the valuation is 30 June 2018 (the "Valuation Date"). The valuation considers all employees eligible for LSA. The LSA liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability. The previous actuarial valuation of the Municipality's LSA liability was undertaken as at 30 June 2017.

Valuation method

Introduction

SAICA revised the Statement of Generally Accepted Accounting Practice, then known as AC 116, in 2001. This statement was based on IAS 19 as published by the International Accounting Standards Committee. One of the effects of this revision was to require the inclusion of long-term employee benefits other than those for retirement.

GRAP 25, derived from IAS 19, has been approved by the ASB and the Minister of Finance, and is effective for financial periods commencing on or after 1 April 2013. It applies to institutions falling within the ambit of the Public Finance Management Act.

There remains room for interpretation of GRAP 25. As a result, it is important to understand the various components of what might make up the liability that will in turn determine what the employer should reflect in its Financial Statements. The following two sections describe the potential make-up of the liability.

Liabilities of the Employer

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18. Employee benefit obligations (continued)

Total long service award liability: This is the present value of the total LSA expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected LSA for current employees.

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old employee with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the employee "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, for the 20 and 25 year LSA are then 15/20 and 15/25 of the respective total liabilities. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the employee over the next 12 months. In this example, these amount to 1/20 and 1/25 of the respective total liabilities.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its LSA liabilities.

Accounting Requirements

The Projected Unit Credit Method has been used to value the liabilities.

Key Assumptions

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised below.

Key Financial Assumptions

The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year.

Key Financial Assumptions Table

Assumption	Value per annum
Discount rate	8.69%
General earnings inflation rate (long-term)	6.26%
Net effective discount rate	6.26%

The earnings used in the valuation include an assumed increase on 1 July 2018 of 7.00%. The next earnings increase was assumed to take place on 1 July 2019.

Key Demographic Assumptions

The table below summarises the key demographic assumptions used.

Assumption	Value	Value	Value
Average retirement age	65	65	65
Mortality during employment	SA 85-90	SA 85-90	SA 85-90
Withdrawal from service (sample annual rates)	Age	Female	Male
	20	24%	16%
	30	18%	12%
	40	10%	8%

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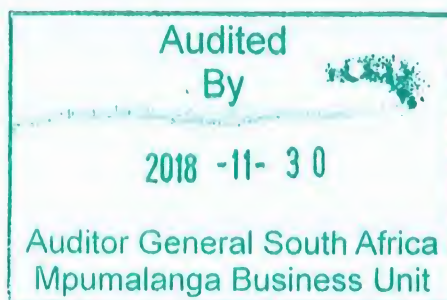
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18. Employee benefit obligations (continued)

50	4%	4%
55	2%	2%



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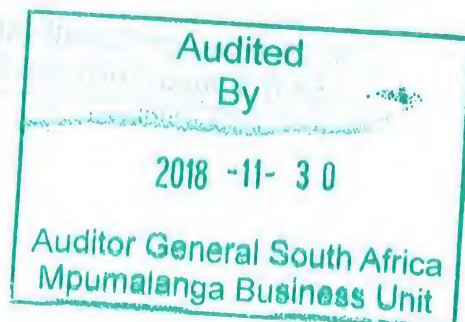
Figures in Rand	2018	2017
18. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-Post Employment Medical Benefit-wholly unfunded	(12,030,705)	(11,624,307)
Present value of the defined benefit obligation-Long Service Awards- wholly unfunded	(10,886,975)	(9,374,586)
	(22,917,680)	(20,998,893)
Non-current liabilities	(21,298,625)	(19,512,984)
Current liabilities	(1,619,055)	(1,485,909)
	(22,917,680)	(20,998,893)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	20,998,893	22,035,844
Net expense recognised in the statement of financial performance	1,918,787	(1,036,951)
	22,917,680	20,998,893

Net expense recognised in the statement of financial performance

Current service cost	1,132,502	1,219,699
Interest cost	1,809,542	1,877,703
Actuarial (gains) losses	462,652	(2,168,306)
Settlement	(1,485,909)	(1,966,047)
	1,918,787	(1,036,951)



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19. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Local government sector education and training authority	333,732	126,488
Integrated National Electrification Programme	-	4,000,000
Water Services Infrastructure Grant	218,760	-
	552,492	4,126,488

Movement during the year

Balance at the beginning of the year	4,126,488	518,556
Additions during the year	153,078,531	85,903,985
Income recognition during the year	(156,652,527)	(82,296,053)
	552,492	4,126,488

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.



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20. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation provision	15,595,181	6,225,891	21,821,072

Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Total
Environmental rehabilitation provision	16,959,814	(1,364,633)	15,595,181

Environmental rehabilitation provision

FINANCIAL ASSUMPTIONS USED

Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

Consumer Price Index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last three months amounted to 4.4805%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used.

For this landfill the rate associated with the maximum period of 10 years was used, i.e. 3% above CPI.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

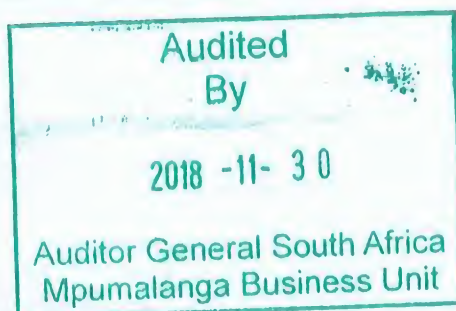
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21. Revenue		
Service charges	148,060,908	163,927,311
Agency services	-	12,155,307
Licences and permits	101,547	115,639
Rental income	1,142,495	751,153
Other income	28,387,838	24,664,149
Interest received	21,186,310	16,599,564
Property rates	39,806,661	40,351,300
Government grants & subsidies	329,103,627	250,086,957
Public contributions and donations	29,141,392	-
Fines, Penalties and Forfeits	2,428,175	3,017,209
	599,358,953	511,668,589



The amount included in revenue arising from exchanges of goods or services are as follows:

Agency services	-	12,155,307
Interest received - investment	21,186,310	16,599,564
Licences and permits	101,547	115,639
Other income	28,387,838	24,664,149
Rental income	1,142,495	751,153
Service charges	148,060,908	163,927,311
	198,879,098	218,213,123

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	39,806,661	40,351,300
Transfer revenue		
Government grants & subsidies	329,103,627	250,086,957
Public contributions and donations	29,141,392	-
Fines, Penalties and Forfeits	2,428,175	3,017,209
	400,479,855	293,455,466

22. Service charges

Sale of electricity	107,886,762	121,224,201
Sale of water	19,988,998	23,560,984
Sewerage and sanitation charges	9,440,145	9,152,886
Refuse removal	10,745,003	9,989,240
	148,060,908	163,927,311

23. Other revenue

Rental income	1,142,495	751,153
Other income - (rollup)	28,387,838	24,664,149
	29,530,333	25,415,302

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24. Other income		
Administration costs	19,486	13,697
Advertising	23,182	67,679
Building and clearance certificates	18,835	35,639
Cemetery fees	182,121	-
Commission income	179,504	200,152
Escourting fees	1,006,760	1,233,440
Fund raising	12,401	1,651
Other revenue	1,050,606	531,986
Photo copies	438,203	288,608
Timber sales	25,456,740	22,291,297
	28,387,838	24,664,149
25. Interest Received		
Interest revenue		
Bank	1,142,759	442,467
Interest charged on trade and other receivables	20,043,551	16,157,097
	21,186,310	16,599,564
26. Property rates		
Rates received		
Residential	16,164,114	18,965,037
Commercial	9,346,534	11,302,903
State	2,834,749	7,813,050
Small holdings and farms	13,282,425	8,137,949
Less: Income forgone	(1,821,161)	(5,867,639)
	39,806,661	40,351,300
Valuations		
Residential	2,607,225,900	2,581,461,403
Commercial	954,812,830	944,277,930
State	497,088,760	428,729,760
Municipal	306,911,400	346,549,400
Small holdings and farms	3,889,505,680	3,910,291,256
Vacant Land	193,729,616	200,824,716
Other	6,844,000	6,925,000
	8,456,118,186	8,419,059,465

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

27. Transfers and subsidies

Other subsidies		
Equitable share	5,473,471	6,675,704

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28. Government grants and subsidies		
Operating grants		
Equitable share	186,451,100	166,348,627
Finance management grant	2,145,000	1,810,000
Local government sector education and training authority	161,287	994,977
Expanded public works programme incentive grant	3,350,000	2,452,000
	192,107,387	171,605,604
Capital grants		
Municipal Infrastructure Grant	102,215,000	74,666,000
GSDM Grant	-	3,815,353
Water Services Infrastructure Grant	34,781,240	-
	136,996,240	78,481,353
	329,103,627	250,086,957

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal infrastructure grant (MIG)

Current-year receipts	102,215,000	74,666,000
Conditions met - transferred to revenue	(102,215,000)	(74,666,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which are yet to be completed. The conditions of the projects are directly in-line with the DORA requirements. The Municipality has committed the unspent portion of the Grant to projects.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish. An amount of R102 215 000 (2017- R74 666 000) of the Municipal Infrastructure Grant was expended on Infrastructure capital projects.

Financial management grant (FMG)

Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,145,000)	(1,810,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. An amount of R2 145 000 (2016 - R1 810 000) was used during the period.

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28. Government grants and subsidies (continued)		
Local government sector education and training authority		
Balance unspent at beginning of year	126,488	518,556
Current-year receipts	368,531	602,909
Conditions met - transferred to revenue	(161,287)	(994,977)
	333,732	126,488
Conditions still to be met - remain liabilities (see note 19).		

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The Local Government, Water and Related Services SETA was established in terms of the Skills Development Act (1998). In terms of the provisions of the Act, the SETA was first established in 2000 and was recertified by the Minister of Labour in March 2005, with a reduced scope of coverage that excluded the Water Sector. It was at this stage renamed the The Local Government Sector Education & Training Authority (LGSETA). In 2011 responsibility for all SETAs was moved from the Department of Labour to the newly established Department of Higher Education and Training. The LGSETA was recertified by the Minister for the National Skills Development Strategy III period (2011-2016).

The LGSETA has aligned its contributions to the implementation of National Skills Development Strategy III (NSDS III) primarily to support the achievement of OUTCOME 9 of the Cabinet Programme of Action, which aims to improve the effectiveness and efficiency of skills development system within the local government sector. The strategic outcome of the SETA will therefore produce a skilled and capable local government workforce. Provide explanations of conditions still to be met and other relevant information.

An amount of R161 287 (2017 - R994 977) was expended during the period.

Integrated national electrification programme

Balance unspent at beginning of year	4,000,000	-
Current-year receipts	10,000,000	4,000,000
Conditions met - transferred to revenue	(10,000,000)	-
Repaid back to National reasury	(4,000,000)	-
	-	4,000,000

Conditions still to be met - remain liabilities (see note 19).

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Intergrated Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

The unspent grant as at 30 June 2017 of R4 000 000 was repaid to National Treasury through disbursements withheld.

Expanded public works programme incentive grant

Current-year receipts	3,350,000	2,452,000
Conditions met - transferred to revenue	(3,350,000)	(2,452,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

An amount of R3 350 000 (R2 452 000) was used during the period.

Water Services Infrastructure Grant

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30. Employee related costs (continued)

General Manager Corporate Services)

Annual Remuneration	405,085	-
Car, Travel and other allowances	60,818	-
Contributions to UIF, Medical and Pension Funds	74,833	-
	540,736	-

Mr M Thabede served for nine months from December 2017 to 30 June 2018.

General manager - Corporate services

Annual Remuneration	509,266	720,720
Car, Travel and other allowances	110,564	186,657
Contributions to UIF, Medical and Pension Funds	91,879	174,455
Leave Gratuity	183,187	-
	894,896	1,081,832

Mr M. Mkhonza served for seven months to January 31 2018.



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30. Employee related costs (continued)		
General manager - Technical services		
Annual Remuneration	162,342	669,368
Car, Travel and other allowances	53,672	213,605
Contributions to UIF, Medical and Pension Funds	29,247	114,792
Leave gratuity	64,192	-
	309,453	997,765

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The GM Technical Services Ms L Dludla three months to September 2017.

General manager - Community Services

Annual Remuneration	713,419	760,167
Car, Travel and other allowances	122,295	214,916
Contributions to UIF, Medical and Pension Funds	142,102	186,317
Leave Gratuity	196,670	-
	1,174,486	1,161,400

Mr A Nkonyane served for ten months to April 2018.

General Manager - Community Services

Annual Remuneration	94,281	-
Car Allowance	28,744	-
Contributions to UIF, Medical and Pension Funds	12,399	-
	135,424	-

Mr V Khumalo is the ne General Manager Community Services and he served for two months from May 2018 to June 30 2018.

31. Remuneration of councillors

Executive Major	859,069	802,560
Chief Whip	649,031	618,098
Speaker	690,502	565,601
Councillors salaries	11,064,869	9,177,199
Councillors pension contribution	689,123	875,478
	13,952,594	12,038,936

32. Depreciation and amortisation

Property, plant and equipment	202,432,454	201,943,263
Intangible assets	191,456	82,532
	202,623,910	202,025,795

33. Finance costs

Trade and other payables	13,342,678	9,180,975
Current borrowings	44,789	295,165
Interest Charge: Landfill closure	1,269,011	-
	14,656,478	9,476,140

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34. Debt impairment		
Debt impairment	65,277,633	62,362,631
35. Bulk purchases		
Electricity	116,534,843	113,382,659
Water	5,893,865	2,200,593
	122,428,708	115,583,252
36. Contracted services		
Specialist Services	-	44,346
Business and Financial Management	19,776,459	15,205,000
Legal and Litigation	2,892,949	2,288,618
Occupational and Health Safety	20,655	6,200
Professional Staff	846,916	2,142,979
Project Management	212,488	2,048,415
Research and advisory	27,900	316,260
Security services	20,214,534	14,994,597
Valuation Services	2,567,587	293,921
	46,559,488	37,340,336
37. General expenses		
Advertising	1,629,131	1,149,838
Auditors remuneration	3,955,239	3,203,612
Bank charges	775,061	915,150
Commission paid	327,954	185,826
Community development and training	270,920	946,539
Consulting and professional fees	2,226,605	3,640,945
Consumables	14,584,402	11,784,392
Discount allowed	42,830	-
VAT Assessment	-	11,319,861
Entertainment	-	21,875
Insurance	5,059,915	5,609,764
Printing and stationery	59,600	2,250
Protective clothing	3,318,142	3,505,102
Repairs and maintenance	28,023,589	25,240,378
Subscriptions and membership fees	2,301,093	1,178,619
Telephone and fax	4,084,998	3,113,757
Subsistence and travel	17,291,284	10,307,033
Training	2,628,532	3,046,697
	86,579,295	85,171,638
38. Fair value adjustments		
Investment property (Fair value model)	-	44,104,200
Biological assets - (Fair value model)	(29,631,479)	(12,580,521)
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	-	10,104
	(29,631,479)	31,533,783



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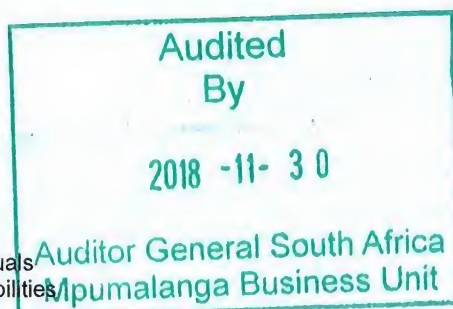
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Figures in Rand	2018	2017
39. Auditors' remuneration		
Fees	3,955,239	3,203,612
40. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	899,005	447,502
Motor vehicles		
• Contractual amounts	-	1,060,394
Lease rentals on operating lease - Other		
• Contractual amounts	3,809,580	4,153,853
	4,708,585	5,661,749
Gain on sale of property, plant and equipment	1,686,386	2,304,205
Amortisation on intangible assets	191,456	82,532
Depreciation on property, plant and equipment	202,432,454	201,943,263
Employee costs	176,000,479	160,813,376
41. Cash generated from operations		
Surplus/(deficit)	(152,836,366)	(140,724,287)
Adjustments for:		
Depreciation and amortisation	202,623,910	202,025,795
Sale of assets and liabilities	(1,686,386)	(2,304,205)
Donated Assets	(29,141,392)	-
Fair value adjustments	29,631,479	(31,533,783)
Debt impairment	65,277,633	62,362,631
Movements in operating lease assets and accruals	-	(57,910)
Movements in retirement benefit assets and liabilities	3,976,784	950,504
Movements in provisions	6,225,891	(1,364,633)
Gains/Losses on inventory	(57,821)	1,120,243
Changes in working capital:		
Inventories	(2,491,266)	644,781
Receivables from exchange transactions	714,991	(1,221,832)
Consumer debtors	(68,690,364)	(71,313,790)
Other receivables from non-exchange transactions	(1,508,586)	(491,131)
Payables from exchange transactions	60,910,320	25,037,752
VAT	10,148,467	20,630,507
Unspent conditional grants and receipts	(3,573,996)	3,607,932
Consumer deposits	40,846	238,670
	119,564,144	67,607,244

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42. Financial instruments disclosure (continued)		
Trade and other receivables from exchange transactions	- 3,064,028	3,064,028
Other receivables from non-exchange transactions	- 2,045,006	2,045,006
Consumer debtors	- 41,692,978	41,692,978
	465,325	46,802,012
	46,802,012	47,267,337

Financial liabilities

	At amortised cost	Total
Other financial liabilities	10,000,000	10,000,000
Trade and other payables from exchange transactions	264,961,364	264,961,364
VAT Payable	16,525,137	16,525,137
Consumer deposits	3,551,068	3,551,068
Unspent Conditional Grants	552,492	552,492
	295,590,061	295,590,061

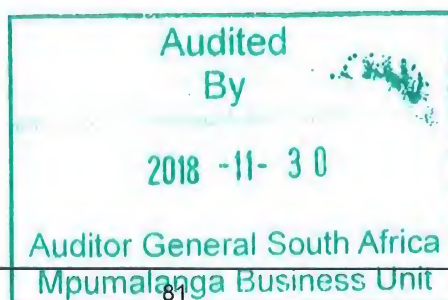
2017

Financial assets

	At fair value	At amortised cost	Total
Other Financial assets	382,467	-	382,467
Trade and other receivables from exchange transactions	-	3,779,019	3,779,019
Other receivables from non-exchange transactions	-	1,540,006	1,540,006
Consumer debtors	-	37,276,663	37,276,663
Cash and cash equivalents	1,499,578	-	1,499,578
	1,882,045	42,595,688	44,477,733

Financial liabilities

	At amortised cost	Total
Operating Lease Liability	5,275	5,275
Other financial liabilities	7,296,891	7,296,891
Trade and other payables from exchange transactions	201,987,773	201,987,773
VAT Payable	6,376,670	6,376,670
Consumer deposits	3,510,222	3,510,222
Unspent Conditional Grants	4,126,488	4,126,488
	223,303,319	223,303,319



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43. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	239,423,797	203,335,833
Total capital commitments		
Already contracted for but not provided for	239,423,797	203,335,833
<p>This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.</p>		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1,662,300	2,663,207
- in second to fifth year inclusive	1,908,520	-
	3,570,820	2,663,207

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.



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44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the Municipality's management thereof.

Due to largely "non-trading nature" of activities and the way to which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRSs mainly apply. Generally, financial assets and liabilities are generated by day to day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The Internal audit is responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body monitors the effectiveness of internal audit function. The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates to ensure that cash flow requirements are met.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	10,000,000	-	-	-
Trade and other payables	285,590,061	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	7,296,891	-	-	-
Trade and other payables	216,006,428	-	-	-



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44. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Investments	465,325	382,467
Receivables from non xchange transactions	2,045,006	1,540,006
Receivables from exchange transactions	16,402,858,345	3,779,019
Cash and bank balances	3,443,923	1,499,578
Consumer debtors	41,692,978	37,726,663

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. To decrease interest rate risk exposure, investments is mostly done on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	11.50 %	41,692,978	-	-	-	-
Other financial assets	- %	465,325	-	-	-	-
Other financial liabilities	- %	10,000,000	-	-	-	-

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44. Risk management (continued)

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.



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45. Contingencies

Contingencies Liabilities - 2018

FINANCIAL YEAR: 2017/2018

NAME OF CLAIMANT	SUMMARY OF CASE AND PROGRESS	RESPONSIBLE LAW FIRM OR APPOINTED FIRM	CASE NUMBER	AMOUNT CLAIMED	COMMENTS
Bareki Management Consulting Services	The plaintiff is claiming damages for work done. They allege that they compiled a supply chain management system and they were not paid for the work done.	TMN Kgomo & Associates Inc.	19148/2011	Claim A R 761 383.10 Claim B R 1 169 904.48	Pleadings have been closed and pre-trial conference to be held our attorneys have written a letter to plaintiffs' attorney to furnish us with three possible dates on which a pre-trial can be held.
Owethu Mkhondo Trading CC	The Plaintiff is suing the Municipality for R 21 277 570.63 for alleged breach of contract	TNM Kgomo & Associates Attorneys	46047/2014	R 21 277 570.63	The matter is trial ready, Pleadings are closed
Pamoja Technologies	The plaintiff is suing the Municipality the sum of R 1 396 370.67 for alleged breach of contract by the Municipality.	TNM Kgomo Incorporated Attorneys	15597/11	R 1 396 370.67	The Plaintiff's Attorney informed our Attorney that the file was not assigned to anyone after Mr Dingiswayo left, and they shall take instruction from client and revert. Our attorney has further taken an initiative to uplift the court file however same could not be located at court. Attorney is following the matter up with both attorneys and court. No further pleadings have been received herein
Busamasi Investments CC	A claim was instituted by the plaintiff following an alleged breach of contract by the municipality.	TNM Kgomo Incorporated	47483/2011	R 558 842.62	The matter is in active, our Attorneys contacted the Plaintiff's Attorney and they indicated their intention to have the matter withdrawn. We await plaintiff's notice of withdrawal.

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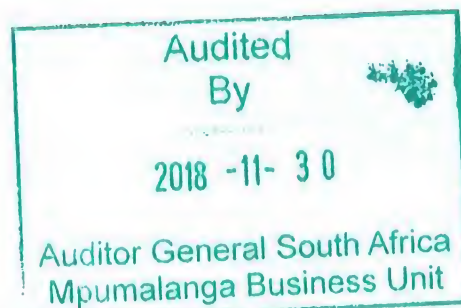
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45. Contingencies (continued)

Rethuseng Live Line Services CC	Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant. The plaintiff is claiming from the first defendant an amount of R 4 846 015.42 and alternatively R 3 249 043.64 from the second defendant.	TNM Kgomo Incorporated Attorneys.	40779/2014	R 3 249 043.64	All pleadings have been served and parties discovered, a meeting was convened on the 24 th January 2018 the firm has appointed to ascertain the actual work done by Rethuseng in order to curtail issues in court.
LP De Beer	Mr Lourens has served Summons against the Municipality stating that he has incurred damages due to a motor vehicle accident, he alleges that the accident was as the result of poor maintenance of storm water drain	Mohlala Attorneys	20751/2015	R470 000.00	The Council is waiting for the Plaintiff to enrol the application on the opposed roll for same to be argued
Bicacon (Pty) vs Mkhondo Municipality	The Municipality received summons from Bicacon (Pty) Ltd seeking relief, as the plaintiffs are claiming that the Mkhondo Local Municipality unlawfully terminated their contract, the plaintiffs were appointed to provide Engineering Consulting Services for the construction of Driefontein to Iswepe and Hartebeesfontein Water Bulkline by Mega, which ceded their rights to the Municipality.	Mohlala Attorneys	87155/15	R 5319140.62	The Counsel appointed for this matter is currently preparing a bill of costs for taxation purposes.



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45. Contingencies (continued)

Olivier AJ & Olivier J.F.B	The Municipality received an urgent application from Efieland Nursery Primary School. Ordering the Municipality to consider the application within 5 days requesting costs on the papers we are cited as third respondent/Applicant, as the first respondent is now Methodist and second respondent /Applicant Efieland. The applicants have lodged an appeal against order that was made on the 15 th of May 2018 and the appeal process is still going on.	Mohlala Attorneys	44205/2018	None(Specific performance)	The application was dismissed with costs.
Phada Trading and Projects vs Mkhondo Municipality	The Municipality received notice and summons claiming the R736 975.99 for services rendered as per SLA.	MT SILINDA	529/2016	R736 975.99	The Municipality appointed an Attorney who has since pursued the matter. The Municipality attorney is have prepared settlement for the actual service that was done which is lessor than the claim amount and we are awaiting for attorneys response
EPH Security	The Municipality received notice and summons claiming the R5 277 870.57 million for breach of Contract.	Mthunzi Madonsela Attorneys	331/2017	R5 277 870.57	The pleadings in this matter are closed and presently at the stage of discovering the documents intended to be used during trial.
Madubula Joseph Solly	The Municipality received notice and summons claiming the R2.2 million to compensate the claimant for loss suffered as the result after his contract has been terminated	Mthunzi Madonsela Attorneys	1241/2017	R2.2 Million	The pleadings in this matter are closed. Currently the Plaintiff move the matter from the Middleburg Circuit High Court to Mbombela Circuit High court we conceded to the matter being moved cause it will minimise correspondent costs.

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45. Contingencies (continued)

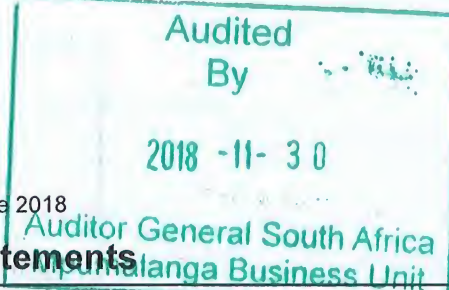
Mkhondo Municipality vs Ideal Prepaid	The Municipality sent a letter to ideal Prepaid stipulating the Municipality's intentions to rescind its decision of entering into a contract with them. We have since requested our attorney to make an application to Review the application.	Mthunzi Madonsela Attorneys	2017	Reviewing Contract	Interlocutory Application is being made at Court to compel the Respondent/ plaintiff to discover after it has failed to comply with the Notice in terms of Rule 35 (14)
Jacobs MME Bredenham	The Municipality received summons claiming R8568.90.Plaintiff hit the pothole and his motor vehicle got damages	Mthunzi Madonsela Attorneys	230/2017	R8568.90	The plaintiff has applied for joinder parties to the pleadings, joining the Department of Public Works, which application have been consented to.
Mr R.J. Lewis	The Municipality requested the assistance of Mthunzi Madonsela Attorneys pertaining a matter whereby Mr Lewis was charged with Fraud and suspended, the judgement was given by the presiding officer for Mr Lewis to be reinstated, and the Municipality then requested Mthunzi Madonsela for a legal opinion with regard to setting aside the decision of the presiding officer.	Mthunzi Madonsela Attorneys	2018	(Reviewing Outcome of chairperson)	The council appointed managed to draft a legal opinion and the matter is still pending as a decision has not be taken .The papers for Application for Review has been prepared.
Ethiopians Tuckshop Owners	The claimant instituted an action against the Municipality ito section 20 in the Equality Court,alleging that the Municipality is discriminating against them by cutting off their electricity	Mthunzi Madonsela Attorneys	1/2017	Specific performance and R20,000.00 to each shop owner.)	The matter is at the trial stage, One Witness has testified for the Plaintiffs and matter was adjourned for the 06/09/2018.
Mnisi Solomon Jabulani Gomu	The Mkhondo Local Municipality received summons from the Plaintiff alleging that he had been arrested and detained by the traffic officers of the Mkhondo Local Municipality, he is therefore claiming an amount of R 850 000.00	Mohlala Attorneys	8550/2017	R850 000.00	The Defendant's special plea and plea has been served and filed accordingly and the matter is currently at discovery stage

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45. Contingencies (continued)

Vorster Andries Wilhelmus Jacobus	The Plaintiff is suing the Mkhondo Local Municipality in the amount of R 25 000.00 for a once off gratuity equal to three months pensionable salary, the Plaintiff was a councillor at the Municipality.	Mohlala Attorneys	367/2015	R25 000.00	The Plaintiff's attorney have since withdrawn from the matter
Dawson and Dobson (Pty) Ltd vs Mkhondo Local Municipality	The Mkhondo Local Municipality received summons from the Plaintiff alleging that we breached the verbal agreement, he is therefore claiming an amount of R 253 461.90 and R4 442.551.39 and costs	Mohlala Attorneys	1755/2018	R 253 461.90 and R4 442.551.39	We have since consulted with our attorney o record. The Notice ito of R7 has been filed and awaiting for response.
Ideal Prepaid vs Mkhondo Municipality	The Plaintiff is suing the Mkhondo Local Municipality in the amount of R 32 089 340.00 for damages emanating from breach of Contract	Mthunzi Madonsela Attorneys	732/2018	R32 089 340.00	The plaintiff alleges that it has suffered Patrimonial loss as the result our repudiation of contract. Our attorney filed Notice of intention to Defend.

Contingencies Liabilities as at 30 June 2017

Name of Claimant	Summary of case	Responsible Law Firm	Amount Claimed	Comments
Olivier AJ/Olivier J.F.B/Methodist Church of Southern Africa/Eilfiland Nursary school and day care centre vs Mkhondo Local Municipality	The Municipality is cited as the 3 rd respondent. The applicant is suing the 3 rd respondent for dereliction of duty for failure to close a crèche operating at portion 4 Erf 15 at 15 West end street, Piet Retief which is zoned as a residential area instead of a business area.	Mohlala Attorneys	R380 000	Awaiting notice of set down of the Application on the opposed roll
Mnisi Solomon Jabulani Gomu vs Mkhondo Local Municipality	Plaintiff is suing for wrongful arrest	Mohlala Attorneys	R850,000	Finalising notice of exception to be served on the Applicant
Vorster Andries Wilhelmus vs Mkhondo Municipality	Plaintiff is suing for a once off gratuity equal to 3 months' pensionable salary	Mohlala Attorneys	R25,000	Preparing the Defendant discovery affidavit to be served on the Plaintiff

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By

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45. Contingencies (continued)

Bicacon Pty Ltd vs Mkhondo Municipality	Plaintiff is suing for breach of contract	Mohlala Attorneys	R5,772,853	Currently preparing a bill of costs for taxation purposes
Bicacon Pty Ltd vs Mkhondo Municipality	Plaintiff is suing for breach of contract	Mohlala Attorneys	R5,319,140	Application for rescission of judgement is being opposed
Lorens Peter De Beer vs Mkhondo Municipality	Plaintiff suing the Municipality for damages on his motor vehicle because of poor storm water drainage.	Mohlala Attorneys	R470,000	Waiting for the Plaintiff to enrol the Application on the Opposed roll for matter to be argued.
Phada Trading and Projects vs Mkhondo Municipality	Plaintiff suing for amount outstanding after lapse of Level service agreement	MT Silinda	R736,976	Matter defended in court
Bareki Manageent Consulting Pty Ltd	The plaintiff is claiming damages for work done. They allege that they compiled a supply chain management system and they were not paid for the work done.	TMN Kgomo & Associates Inc.	Claim A R 761 383.10 Claim B R 1 169 904.48	Applicant Counsel to provide pre-trial conference date
Owethu Mkhondo Trading CC vs Mkhondo Municipality	he Plaintiff is suing the Municipality for R21 277 570.63 for alleged breach of contract	TMN Kgomo & Associates Inc.	R 21 277 570.63	The matter is ready for trial
Pamoja Technologies vs Mkhondo Municipality	The plaintiff is suing the Municipality the sum of R 1 396 370.67 for alleged breach of contract by the Municipality.	TMN Kgomo & Associates Inc.	R 1 396 370.67	Plaintiff attorneys to furnish further instructions. File currently not assigned
Urban Economic Development	Plaintiff filed a claim against the municipality for services rendered at the request of the municipality. The claim follows the request by the municipality to incorporate Sector plans into the IDP.	TMN Kgomo & Associates Inc.	R 127 082.46	The matter has since been withdrawn
Busamasi Investments CC.	A claim was instituted by the plaintiff following an alleged breach of contract by the municipality.	TMN Kgomo & Associates Inc.	R 2 465 000.00	Matter ineffective. Plaintiff indicated intention to withdraw matter.
Rethuseng Live Line Services CC	Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant	TMN Kgomo & Associates Inc.	R 3 249 043	Agreed to appoint a firm to ascertain the amount of work done. Awaiting response from Plaintiff.

Contingent assets

The Municipality is suing Ideal Prepaid for Electricity Prepaid sales sold through Ideal Prepaid vendors but not remitted to the Municipality. The amount of such revenue is unknown as the Service Provider refused to furnish the Municipality with records of sales made during the year. According to our legal attorneys, they have made an application compelling Ideals prepaid to furnish us with statements to enable us to quantify losses and recover such monies.

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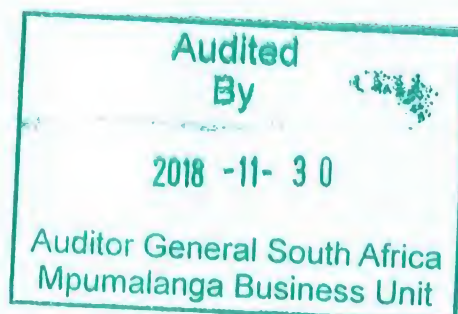
2017

46. Related parties

Relationships

Accounting Officer - Mr. M. Kunene
Mr. M. Thabede
Mr. V. Khumalo
Mr. L. Motloun
Mr. B. Maseko
Development Bank of South Africa
National Treasury

Refer to accounting officer's report note
Section 56 Manager
Section 56 Manager
Section 56 Manager
Section 56 Manager
State Controlled entity
State Controlled entity



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46. Related parties (continued)		
Related party balances		
Loan accounts - Owning (to) by related parties		
Development Bank of South Africa	-	(743,123)
National Treasury	(552,492)	(126,488)
TWK Agriculture	(10,000,000)	(6,553,768)
National Intergrated Electrical Programme	-	4,000,000

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The amounts owed to National Treasury are in respect of grants allocated to the Municipality and were unspent at the reporting date. The amounts owed by councillors are in relation to services rendered by the Municipality in the normal course of its business and these services were made on terms equivalent to any other consumer debtor on an arm's length. The TWK amount is a short term loan which is due and payable by July 2018. The amount will be subject to interest charges if the Municipality fails to pay interest by the due date, otherwise it is interest free up to the agreed due date. The amount is secured over certain plantations.

Councillors Salaries Disclosure - 30 June 2018

Full Names	Annual Remuneration	Cellphone Allowance	Contribution to Pension & Medical Aid	Housing Allowance	Travel Allowance	Grand Total
Cllr. D Thwala	241,615	24,000	15,767	8,054	73,304	362,740
Cllr. S Methula	199,071	24,000	-	8,054	57,120	288,246
Cllr. S Mathebula	185,509	24,000	13,321	8,054	57,120	288,005
Cllr. T Khumalo	475,759	24,000	-	8,054	142,128	649,941
Cllr. B Vilakazi	187,049	24,000	11,787	8,054	57,120	288,010
Cllr. T Nkosi	241,615	24,000	15,767	8,054	73,304	362,740
Cllr. M Ntuli	227,654	24,000	29,478	8,054	73,304	362,491
Cllr. Z Mnisi	417,898	24,000	56,795	8,054	142,128	648,875
Cllr. K Masondo	214,465	24,000	41,915	8,054	-	288,435
Cllr. M Yende	422,803	24,000	52,046	8,054	142,128	649,031
Cllr. J Brussow	159,578	24,000	39,291	8,054	57,120	288,043
Cllr. G Nkosi	429,343	24,000	77,502	8,054	151,602	690,502
Cllr. T Hlatshwayo	247,317	24,000	16,709	-	-	288,026
Cllr. D Ntshakala	247,317	24,000	16,709	-	-	288,026
Cllr. C Mkhwanazi	247,317	24,000	16,709	-	-	288,026
Cllr. F Mthethwa	247,317	24,000	16,709	-	-	288,026
Cllr. T Manana	247,317	24,000	16,709	-	-	288,026
Cllr. N Zulu	247,317	24,000	16,709	-	-	288,026
Cllr. S Mahlobo	247,317	24,000	16,709	-	-	288,026
Cllr. B Mkhwanazi	240,260	24,000	23,640	-	-	287,900
Cllr. S Bophela	247,317	24,000	16,709	-	-	288,026
Cllr. R Wilson	247,318	24,000	16,709	-	-	288,027
Cllr. M Ngwenya	317,330	24,000	21,443	-	-	362,773
Cllr. B Khumalo	232,474	24,000	31,575	-	-	288,048
Cllr. B Nkosi	232,523	24,000	31,239	-	-	287,762
Cllr. S Yende	247,317	24,000	16,709	-	-	288,026
Cllr. T Nkosi	233,942	24,000	30,104	-	-	288,046
Cllr. P Thabede	247,317	24,000	16,709	-	-	288,026
Cllr. J Makhathini	317,330	24,000	21,443	-	-	362,773
Cllr. S Thwala	545,224	24,000	80,243	-	-	649,467
Cllr. T Zulu	229,317	24,000	34,736	-	-	288,053
Cllr. D Ngobese	317,330	24,000	21,443	-	-	362,773
Cllr. R Hlatshwayo	303,423	24,000	35,371	-	-	362,794
Cllr. T Mncube	264,360	24,000	-	-	-	288,360
Cllr. V Motha	682,642	24,000	152,428	-	-	859,070
Cllr. T Mafuyeka	241,615	24,000	15,767	8,054	73,304	362,740
Cllr. B Mchunu	247,317	24,000	16,709	-	-	288,026

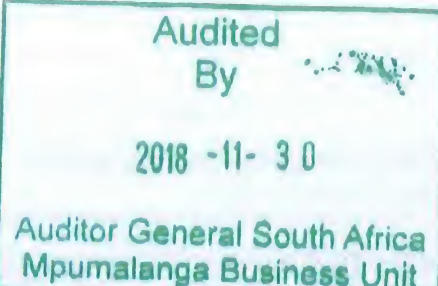
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46. Related parties (continued)

Cllr. S Mwelase	247,317	24,000	16,709	-	-	288,026
Total	10,775,251	912,000	1,070,318	104,702	1,099,682	13,961,957

Councillors Salaries- 30 June 2017

Full Names	Annual Remuneration	Cellphone allowance	Housing Allowance	Contribution to Pension and Medical Aid	Travelling Allowance	Grand Total
Cllr. D Thwala	186,449	20,868	8,054	26,365	77,625	319,362
Cllr. B Mtshali	23,479	3,478	8,420	7,456	31,584	74,417
Cllr. P Langa	20,495	3,478	8,208	4,408	25,267	61,857
Cllr. S Methula	165,686	20,868	8,054	-	59,463	254,071
Cllr. S Mathebula	145,704	20,868	8,054	19,605	58,817	253,048
Cllr. S Kambule	17,523	3,478	1,342	2,396	-	24,739
Cllr. N Ndhlovu	86,883	5,217	-	18,837	34,577	145,514
Cllr. B Vilakazi	145,448	20,868	8,054	19,856	59,167	253,393
Cllr. V Nkosi	15,398	3,478	8,417	6,117	23,688	57,097
Cllr. N Nhlengeth	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. S Mtshali	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. A Thwala	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. T Nkosi	181,383	20,868	8,054	21,797	65,369	297,472
Cllr. S Kunene	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. N Masuku	12,845	3,478	1,342	-	9,520	27,186
Cllr. M Ntuli	186,321	20,868	8,054	24,995	68,489	308,727
Cllr. L Mkhwanaz	16,855	3,478	1,342	-	12,217	33,893
Cllr. S Sangweni	10,079	3,478	1,342	1,775	9,520	26,195
Cllr. K Masondo	174,872	20,868	8,054	47,592	1,155	252,543
Cllr. M Nkosi	12,182	3,478	1,342	2,303	12,217	31,523
Cllr. M Phakathi	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. V Masuku	17,523	3,478	1,342	2,396	-	24,739
Cllr. J Brussow	122,443	20,868	8,054	42,925	57,120	251,411
Cllr. H Mncube	12,845	3,478	1,342	-	9,520	27,186
Cllr. T Nhleko	12,845	3,478	1,342	-	9,520	27,186
Cllr. B Mabuza	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. J Phakathi	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. L Bosch	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. S Nhleko	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. T Hlatshway	180,699	19,129	-	25,008	587	225,423
Cllr. D Ntshakala	180,699	19,129	-	25,008	2,149	226,985
Cllr. C Mkhwana	179,522	19,129	-	26,163	930	225,744
Cllr. F Mthethwa	179,522	19,129	-	26,163	920	225,735
Cllr. T Manana	180,699	19,129	-	25,008	1,906	226,741
Cllr. N Zulu	179,522	19,129	-	26,163	1,698	226,513
Cllr. S Mahlobo	180,699	19,129	-	25,008	970	225,806
Cllr. B Mkhwana	173,627	19,129	671	26,610	6,272	226,309
Cllr. S Bophela	180,699	19,129	-	25,008	920	225,756
Cllr. R Wilson	180,699	19,129	-	25,008	2,437	227,273
Cllr. M Ngwenya	219,376	19,129	-	27,872	2,271	268,647
Cllr. B Khumalo	169,906	19,129	-	35,829	735	225,599
Cllr. B Nkosi	178,346	19,129	-	27,318	934	225,728
Cllr. S Yende	180,699	19,129	-	25,008	1,504	226,340
Cllr. T Nkosi	178,566	19,129	-	28,310	920	226,925
Cllr. S Mntshali	165,419	17,390	-	21,196	5,570	209,576
Cllr. P Thabede	180,699	19,129	-	25,008	920	225,756
Cllr. J Makhathin	224,331	19,129	-	27,872	920	272,252
Cllr. B Shabangu	12,845	3,478	1,342	-	9,520	27,186
Cllr. T Zulu	167,162	19,129	-	39,681	2,202	228,174
Cllr. D Ngobese	224,340	19,129	-	27,872	3,256	274,596

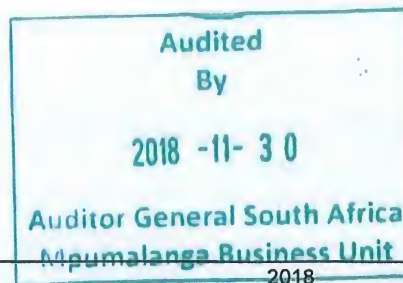
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**46. Related parties (continued)**

Cllr. R Hlatshway	219,946	19,129	-	32,276.00	920.00	272,270.00
Cllr. T Mncube	206,188	19,129	-	-	3,052	228,370
Cllr. C Bios	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. T Mafuyeka	181,383	20,868	8,054	21,797	68,773	300,876
Cllr. B Mchunu	136,087	13,912	-	17,558	-	167,556
Cllr. Z Mthimkhul	14,997	3,478	8,417	5,852	23,688	56,432
Cllr. C Mtshali	10,079	3,478	1,342	1,775	9,520	26,195
Cllr. T Khumalo	394,419	20,868	7,780	-	152,716	575,783
Cllr. Z Mnisi	342,592	20,868	8,054	50,749	188,551	610,814
Cllr. M Yende	342,879	20,868	8,054	50,791	182,110	604,703
Cllr. G Nkosi	285,926	20,868	8,054	51,129	166,031	532,008
Cllr. S Thwala	420,755	18,655	-	86,253	64,761	590,423
Cllr. V Motha	549,881	18,655	-	123,188	-	691,723
Total	8,462,896	830,294	165,401	1,249,054	1,627,698	12,335,366

47. Unauthorised expenditure

Opening balance	454,837,409	399,737,398
Unauthorised expenditure - current period	230,673,181	55,100,011
Less amounts written off	(454,837,409)	-
	230,673,181	454,837,409

The Council MPAC which sat on the 30th of August 2018, wrote off unauthorised expenditure amounting to R454,837,409 in respect of prior years expenditure. The current year unauthorised expenditure is under investigation by Council.

48. Fruitless and wasteful expenditure

Opening balance	41,576,354	32,753,379
Penalties, Interest and other	13,420,539	8,822,975
Less amounts written off	(41,576,354)	-
	13,420,539	41,576,354

The Council MPAC which sat on the 30th of August 2018, wrote off Fruitless and Wasteful expenditure amounting to R41,576,354 related to prior years expenditures. The current year Fruitless and wasteful expenditure is under investigation by Council.

49. Irregular expenditure

Opening balance	376,577,809	289,833,327
Add: Irregular Expenditure - current year	30,712,824	86,744,482
Less: Amounts written off	(376,577,809)	-
	30,712,824	376,577,809

Analysis of expenditure awaiting condonation per age classification

Current year	30,712,824	86,744,482
Prior years	-	289,833,327
	30,712,824	376,577,809

The Council MPAC which sat on the 30th of August 2018, wrote off Irregular expenditure amounting to R376,577,809 relating to prior years expenditure. Current year Irregular expenditure is under investigation by Council.

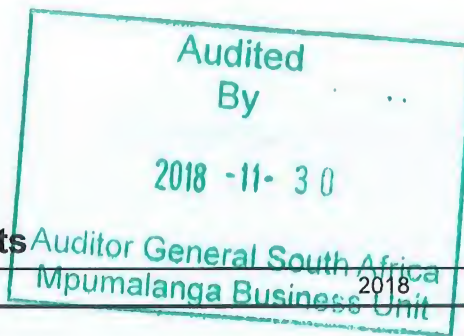
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50. Additional disclosure in terms of Municipal Finance Management Act

Material losses

2018

Electricity losses for the current year amounted to 37% i.e. R42,404,706. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 31% i.e. R1,271,460. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

2017

Electricity losses for the current year amounted to 20% i.e. R22,591,918. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 6% i.e. R129 203.93. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

Audit fees

Opening balance	112,951	(499,521)
Current year subscription / fee	3,955,239	3,203,612
Current year VAT raised on invoices	549,363	454,069
Opening balance correction	-	534,082
Current year interest charged	-	49,400
Amount paid during the year	(1,700,059)	(3,628,691)
	2,917,494	112,951

PAYE and UIF

Opening balance	-	1,697,672
Amount paid - current year	25,183,385	24,275,727
Amount paid - previous years	(23,095,030)	(25,973,399)
	2,088,355	-

Pension and Medical Aid Deductions

Opening balance	-	1,978,773
Current year subscription / fee	37,391,773	34,868,192
Amount paid - current year	(34,225,565)	(36,846,965)
	3,166,208	-

VAT

VAT receivable	(23,501,236)	-
VAT payable	40,026,373	6,376,670
	16,525,137	6,376,670

VAT output payables and VAT input receivables are shown in note 16.

All VAT returns have been submitted by the due date throughout the year.

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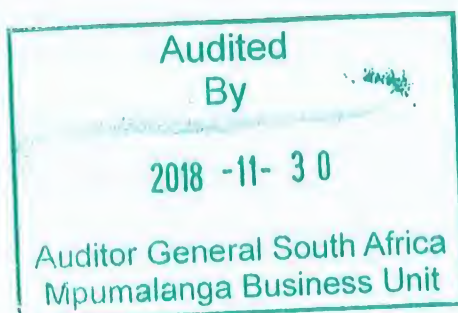
50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. V. M. Motha	(2,667)	-	(2,667)
Cllr. Z.J. Mnisi	2,155	-	2,155
Cllr. M.D. Ntuli	4,373	-	4,373
Cllr. D.M. Ntshakala	3,319	-	3,319
Cllr. F.C Mthetwa	2,476	-	2,476
Cllr. N.N. Zulu	11,924	-	11,924
Cllr. S.C. Mahobo	5,542	-	5,542
Cllr. B.M. Khumalo	101,638	-	101,638
Cllr. S.Z Yende	1,814	-	1,814
Cllr. T.B. Nkosi	276	-	276
Cllr. S.E. Mntshali	2,882	-	2,882
Cllr. J.P. Makhathini	8,648	-	8,648
Cllr. D.L. Ngobese	2,907	-	2,907
	145,287	-	145,287



30 June 2017

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. V.M Motha	592	-	592
Cllr. Z. Mnisi	5,920	-	5,920
Cllr. M.D. Mnisi	1,799	-	1,799
Cllr. D.M. Ntshakala	2,277	-	2,277
Cllr. F.C. Mthetwa	1,303	-	1,303
Cllr. N.N. Zulu	10,152	-	10,152
Cllr. S.C. Mahobo	3,066	-	3,066
Cllr. B.M. Khumalo	82,876	-	82,876
Cllr. S.Z Yende	806	-	806
Cllr. T.B. Nkosi	176	-	176
Cllr. S.E. Mntshali	3,517	-	3,517
Cllr. J.P. Makhathini	3,431	-	3,431
Cllr. D.L. Ngobese	1,851	-	1,851
	117,766	-	117,766

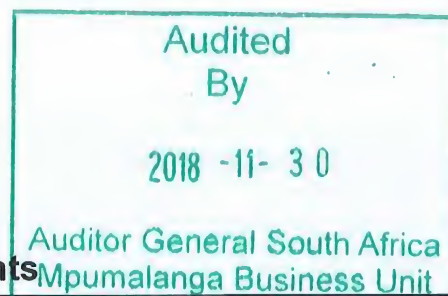
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51. Prior period errors

Certain compartments of plantations were incorrectly valued as at 30 June 2017. A new valuation was performed on the plantations that resulted in the value of the plantations increasing from R58,873,012 as previously reported to R59,684,288. Prior year results have been reinstated to correct the error.

Certain Properties, Plant and equipment were reinstated and noted below is the effect of the reinstatement. There had also been a change in Accounting estimate on the Useful lives of the Infrastructure assets and this has resulted in the depreciation rates applied.

There had been a change in accounting policy with respect to Investment Properties. The Municipality changed the valuation method from the Cost Model to the Fair Value Model. The changes were effected in retrospect.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	-	218,997,662
Biological assets	-	811,276
Investment Properties	-	28,506,500
Opening Accumulated Surplus or Deficit	-	279,510,838

Statement of financial performance

Depreciation expense	-	(131,847,799)
Fair value adjustments	-	44,915,476

52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2016

	Note	As previously reported	Correction of error	Restated
Investment Property	10	17,527,900	14,974,400	32,502,300
Property, Plant and Equipment	11	1,372,635,401	352,377,056	1,725,012,457
Accumulated Surplus		(1,303,533,738)	(367,351,456)	(1,670,885,194)
		86,629,563	-	86,629,563

2017

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Biological assets	9	58,873,012	811,276	-	-	59,684,288
Property Plant and Equipment	11	1,381,583,488	219,905,953	-	-	1,601,489,441
Investment Property	10	16,873,100	-	59,701,900	-	76,575,000
Accumulated Surplus		(1,249,741,773)	(220,717,229)	(59,701,900)	-	(1,530,160,902)
Other Financial Assets- Current Assets		-	-	-	37,510	37,510
Other Financial Assets - Non Current Assets		382,467	-	-	(37,510)	344,957
		207,970,294	-	-	-	207,970,294

Statement of financial performance

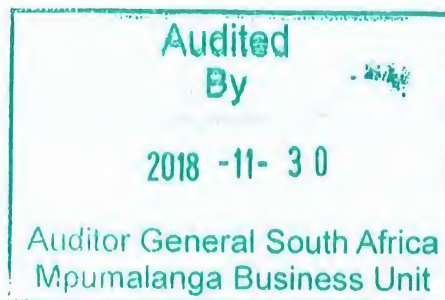
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52. Prior-year adjustments (continued)					
2017					
	Note	As previously reported	Correction of error	Re-classification	Restated
Fair value adjustments	38	(13,381,693)	44,915,476	-	31,533,783
Depreciation	32	(70,177,996)	(131,847,799)	-	(202,025,795)
Contracted services	36	-	-	(37,340,336)	(37,340,336)
General expenditure	37	(97,271,596)	-	12,099,958	(85,171,638)
Repairs and maintenance		(25,240,378)	-	25,240,378	-
Surplus for the year		(206,071,663)	(86,932,323)	-	(293,003,986)



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53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

A register of deviations is kept at the Municipal Manager's office and is available for inspection.

No	Service Provider	Service description	Contract price	Procurement date	Justification or reason for the deviation
1	EMALANGENI TECHNOLOGIES	UPS service for the sever room.	R 34,916.52	28/07/2017	The Municipal Policy on Supply Chain Management states that all requirements above R30 000(Vat Incl.) must be advertised on the notice board for at least seven (7) day. The unit did not observe the 7 days.
<div style="border: 1px solid green; padding: 10px; text-align: center;"> <p>Audited By</p> <p>2018 -11- 30</p> <p>Auditor General South Africa Mpumalanga Business Unit</p> </div>					
2	KAINOS INVESTMENTS (PTY) LTD	Supply and Install Preprogramed Elster A 1700 multifunction KWH & KVA max Meter with GPRS/3G modem.	R 199272.00	13/07/2017	Due to the emergency nature of this request to prevent the revenue loss of electricity by speedily procuring and installing the bulk meters on the identified major customers around town.

2017 Deviations.

NO.	SERVICE PROVIDER	SERVICE DESCRIPTION	CONTRACT PRICE	PROCUREMENT DATE	JUSTIFICATION REASON FOR DEVIATION
1	STUCKY MOTORS	SERVICE OF MERCEDES BENZ DNC 871 MP	R 8,543.05	27/01/2017	Only one Mercedes Benz accredited dealer in Mkhondo. MFMA SCM Regulation 36(1)(ii)(v)
2	STUCKY MOTORS	Service of a Mercedes Benz, FLR 959 MP	R 10,054.40	08/02/2017	Only one Mercedes Benz accredited dealer in Mkhondo. MFMA SCM Regulation 36 (1)(ii)(v)

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53. Deviation from supply chain management regulations (continued)

3	TWK TOYOTA PIET RETIEF	Repair of Mahindra Bakkie, FZJ 579 MP	R 5,402.70	23/02/2017	TWK only accredited Mahindra dealer in Piet Retief. Deviation from normal SCM procurement procedures in terms of SCM Regulations 36 (1)(i)(ii) and (v) and in terms of SCM policy
4	Sorenso Trading	Repair of Colt Bakkie, DGY 652 MP	R 6,463.75	23/02/2017	Vehicle breakdown, Impractical to send the vehicle to multiple service providers for inspection (strip) and quotation. MFMA SCM Regulation 36 (1)(i)(v)
5	SMITH TPT	23981	3941.4	23/02/2017	Only one Service provider could strip, quote and provide the service. Impractical to send the vehicle to multiple service providers for stripping and quotation. MFMA SCM Regulation 36 (1)(v)
6	Media 24	Advertising vacancy on City Press	R 27,360.00	09/02/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
7	Ermelo MAN Truck	Servicing of MAN Truck, DYP 515 MP	R 11,247.00	22/03/2017	Ermelo MAN Truck is the only accredited Service provider around, work requires strip and quote. Impractical to send the vehicle to multiple service providers for stripping and quotation. MFMA SCM Regulation 36 (II)(v)
8	Botex Panel beaters	Third Party Vehicle Repairs	R 20,520.00	10/04/2017	Works requires strip and quote. Impractical to send the vehicle to multiple service providers for stripping and quotation. MFMA SCM Regulation 36 (II)(v)
9	Times Media	Tender Advert	R 10,998.72	11/04/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
10	Times Media	Advert Vacancy	R 25,786.80	24/04/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
11	TWK Toyota	Repairs HLX 427 MP	R 2,527.42	10/05/2017	Only one Toyota accredited dealer in Mkhondo and it was imprudent to send the vehicle to multiple service providers for inspection and quotation. MFMA SCM Regulation 36(1)(ii)(v)
12	TWK Toyota	Water Pump Repairs FZJ579MP	R 6,752.60	31/05/2017	Only one Toyota accredited dealer in Mkhondo and it was imprudent to send the vehicle to multiple service providers for inspection and quotation. MFMA SCM Regulation 36(1)(ii)(v)
13	Times Media	Tender Advert	R 10,998.72	06/06/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
14	Media 24	Advert: Vacancy	R 57,456.00	12/05/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)

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53. Deviation from supply chain management regulations (continued)

15	Media 24	Advert: Vacancy Corporate	R 45,964.80	14/06/2017	Emergency and impractical to get more than one quote since there are few service providers with a Sunday circulation. MFMA SCM Regulation 36 (1) and (v)
16	TWK TOYOTA	FZJ579MP	R 12,471.08	13/06/2016	Only one Toyota accredited dealer in Mkhondo and it was imprudent to send the vehicle to multiple service providers for inspection and quotation. MFMA SCM Regulation 36(1)(ii)(v)
		TOTAL AMOUNT	R 266,488.44		

54. Events after the reporting date

The Municipality secured a short term loan from TWK amounting to R20,000,000 (Twenty million rands) on 16 October 2018. The loan is secured over certain plantation compartments. The loan bears interest at 11% per annum as from 16 October. Should the Municipality fail to pay the outstanding amount on time, the outstanding amount shall bear interest at the rate of 14% per annum calculated from the date on which the debt fell in arrears.

The principal debt and interest shall be paid on or before 5 December 2018.

The Municipality will be in a position to repay the Loan when it falls due.

55. Going concern

Financial Trend analysis

	30 June 2018	30 June 2017
Deficit for the year	(152,836,366)	(140,724,287)

Net Asset Value

	30 June 2018	30 June 2017
Net Asset value	1,377,324,539	1,530,160,905

Based on the above ratios, although the Municipality is incurring losses that no negative ratios exists.

Working Capital

The net working capital deteriorated from a deficit of R173,070,847 to a deficit of R233,744,581. This is due to growth in ESKOM debt, Department of water and sanitation.

Cash and Cash equivalents

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55. Going concern (continued)

	30 June 2018	30 June 2017
Cash and cash equivalents	3,443,923	1,499,598

There has been a minimal increase in cash and cash equivalents. However, the balance falls short of the liabilities as at year end.

Financial ratios

Liquidity ratios

	30 June 2018	30 June 2017
Current ratio	0.21	0.23
Quick ratio	0.17	0.20
Defensive interval Days	37.67	39.22

Activity ratios

	30 June 2018	30 June 2017
Accounts receivable turnover	3.55	4.4
Days sales in receivables	102.78	83

Based on the above ratios, although the Municipality is incurring losses that there no negative ratios exists.

Other trends

The Municipality has not defaulted on any loan arrangements for the year.

No creditors have cancelled any credit terms with the Municipality

The Municipality did not sell any significant assets during the year to increase its cash flows.

The Municipality did not require any debt restructuring or special payment terms.

No foreseeable labour matters have occurred and are planned to occur during the next 12 months.

The Municipality has no long-term commitments except those disclosed in note 43.

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55. Going concern (continued)

No need was identified during the past 12 months and the following 12 months to restructure the operations of the Municipality.

External Matters

No key suppliers were lost during the financial year

No contingencies exist at year end which could doubt the ability of the municipality to continue with operations for the foreseeable future.

Government funding

Based on the DoRa allocation for the 2018/19 financial year, Treasury will continue with its approved Operational and Conditional Grants for the Municipality.

Conclusion

Based on all the above matters stated factually, it is clear that the Municipality will continue as a going concern for the next 12 months.

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